

TRANSCRIPT OF PROCEEDINGS,
COMMITTEE ON LONG BEACH TIDELANDS,

State Building
Los Angeles, California

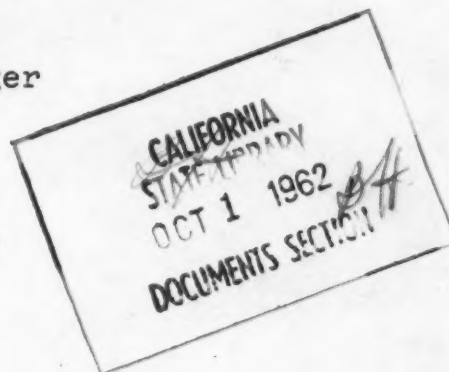
January 27 & 28, 1956

MEMBERS

John J. McFall, Chairman
Thomas W. Caldecott
Allen Miller
H. Allen Smith
Caspar W. Weinberger

Ex Officio

Bruce F. Allen
William S. Grant



George G. Grover, Committee Counsel
Grace Stall, Secretary

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SUBCOMMITTEE ON LONG BEACH TIDELANDS

January 27 and 28, 1956

Room 115, State Building
Los Angeles, California

MEMBERS PRESENT:

Bruce F. Allen*
William S. Grant*
Allen Miller
Caspar W. Weinberger
John J. McFall, Chairman

*Ex officio

ALSO PRESENT:

George G. Grover, Committee Counsel
Owen Kuns, Legislative Counsel Bureau
N. B. Keller, Legislative Auditor's Staff
James Annand, Legislative Auditor's Staff

MEMBERS ABSENT:

Thomas W. Caldecott
H. Allen Smith

CHAIRMAN McFALL: For the record, the Assembly Interim Committee on Judiciary, Subcommittee on Long Beach Tidelands, is in order.

Before we begin, for those of you who are in the audience and are going to follow the presentation of testimony for these two days, we do have an agenda. I know the press has seen a copy of it. Mr. Works, have you seen a copy of the agenda?

MR. PIERCE WORKS: Yes.

CHAIRMAN McFALL: Fine. For anyone else who is interested, we do have a copy of the agenda so that you can know who is going to testify.

Now, Mr. Grover.

MR. GEORGE GROVER: Mr. Chairman, we have here a resolution mailed to us by the City of Inglewood - by the City Clerk, Mr.

Leonard C. Fox - in which the city takes a position against the Allen bill, and I ask that it be filed as the next exhibit in order.

CHAIRMAN McFALL: What number is that?

GROVER: No. 119.

CHAIRMAN McFALL: No. 119.

GROVER: Mrs. Margaret Hartwell, would you come up to the stand, please?

CHAIRMAN McFALL: Would you state your name, please, and your position?

MRS. HARTWELL: Yes. Margaret Hartwell, City Clerk of the City of Long Beach.

CHAIRMAN McFALL: Now, I understand Mrs. Hartwell is just going to introduce documents. Is that correct? Will there be any necessity of swearing the witness or anything of that nature?

ASSEMBLYMAN ALLEN: No, Mr. Chairman. Are these your original copies or are they copies you have made for the committee?

MRS. HARTWELL: I have the originals, and then I have certified copies for you - a certified copy of each.

ASSEMBLYMAN ALLEN: If you keep the originals and leave the copies with the committee, I think that will accomplish the purpose.

MRS. HARTWELL: All right. Thank you.

ALLEN: I think, also, the committee will pay the usual - purchase these copies.

CHAIRMAN McFALL: Correct. How do you want to list these?

GROVER: Would you just identify the exhibits, Mrs. Hartwell?

MRS. HARTWELL: Yes, I will identify them as they appear on

the subpoena which was served on them.

CHAIRMAN McFALL: All right.

MRS. HARTWELL: We have a certified copy of Contract 208-H. That is between the City of Long Beach and the Industrial Field Supply Company, December 28, 1939.

CHAIRMAN McFALL: That is No. 120, is that right, Mr. Grover?

GROVER: That is correct.

MRS. HARTWELL: A certified copy of Contract 2463 between the City of Long Beach and the Wilmington Gasoline Company dated December 9, 1942.

GROVER: No. 121.

MRS. HARTWELL: A certified copy of Contract No. 2600 between the Wilmington Gasoline Company and the City of Long Beach dated July 8, 1944, and a certified copy of Resolution No. C-15632 of the City of Long Beach adopted October 4, 1955.

GROVER: Contract No. 2600 will be No. 122, and Resolution C-15632 will be No. 123. Thank you very much.

CHAIRMAN McFALL: And are we to understand, now, Mr. Grover, that Mrs. Hartwell was here this morning in answer to a subpoena by the committee and brought these documents in answer to the subpoena? Is that correct?

GROVER: That's right, and is now excused.

CHAIRMAN McFALL: Fine. Thank you very much.

GROVER: Mr. Allen has one additional exhibit, I believe, to introduce now.

ALLEN: Mr. Chairman, the subpoena served, I believe, on the Apex Petroleum Company to bring in some documents - I just wonder if there was any return on that, if there are some more documents?

GROVER: We don't have a return on that.

ALLEN: We don't have any return on it?

GROVER: We don't have Apex documents.

CHAIRMAN McFALL: All right. Maybe we will get a return on it later.

ALLEN: There is a Mr. Fitzgerald who wanted to make a statement. I wonder if he is present.

CHAIRMAN McFALL: Mr. Fitzgerald? We have no Mr. Fitzgerald.

ALLEN: Well, I think the next witness is Mr. Gabrielson who was still on the stand at the last hearing.

CHAIRMAN McFALL: Continuing from January 14th when we adjourned, Mr. Gabrielson was being questioned by Mr. Works.

WORKS: Mr. Chairman, at the last meeting we obtained permission to file a formal statement with reference to the charges made by Mr. Gabrielson. We have no further questions of him at this time.

CHAIRMAN McFALL: All right. Do you have the formal statement that you are going to enter at this time?

WORKS: It has not been prepared. It will be prepared and submitted.

CHAIRMAN McFALL: All right, thank you. I believe, however, Mr. Gabrielson has a statement to make. Of course, if you have any questions, Mr. Works, Mr. Gabrielson has a short statement to make with reference to testimony that he made previously on questions which were asked, and if you have any further questions you would like to ask him on this statement, you certainly can. Go ahead, Mr. Gabrielson.

MR. THEODORE R. GABRIELSON: Mr. Chairman, at the last meeting

of this committee, after my prepared statement, some issue was made and one committee member asked me where I received a copy of the Attorney General's report. I would like to clarify this point so there will be no further belaboring of this committee and to erase any possible suspicion that it was acquired surreptitiously on my part.

Let me just say that on December 23, 1955, the Long Beach newspapers had a front page story that a report of the Attorney General had been released to the press. Certain portions of it, suitable to the Long Beach press, were set forth in detail in the report. I read the newspaper report and read where the entire Attorney General's report had been released to the press, and so I called - I made certain calls to see if I could find a copy of the report or acquire a copy of the report. Now, a Mr. John Fleming was mentioned in great detail in the report, so I called him on the phone to ask him if he could send me a copy. He said he would try to get me a copy. This was on December 23, 1955. I heard no more about it, and I left Los Angeles for the Christmas holidays. I returned to Los Angeles around the 28th or 29th of December - I am not sure - after Christmas, and there was a copy at my office. Now, that is the way I acquired the report.

There is a second item which I wish to clarify and that is this. There seems to also be an issue here created about my interest. First, let me say that I appear here, as one of the members has already put in the record, at the request of the committee. I presume the reason for the request was and is that I have worked in this field since 1947. I represent myself as a taxpayer; I am of record with Alma Swart in the Mallon case; and I presume, and

I think it is safe to say, I represent all the taxpayers of the State of California, including taxpayers of Long Beach.

Now, there was some question about other clients. I have examined the transcript very closely, and I still point out the same thing which I pointed out to Mr. Works in his questioning of me last time. Yes, I have other clients interested in the litigation, but they are clients of my office in connection with other legal work. At no time did I say that they were clients in tidelands matters. These clients naturally asked questions about the tidelands case. They are interested as taxpayers, but they are not paying me to appear here, nor have they retained me to appear here, nor have these other persons retained me for any tidelands work. That, and solely that, was the reason I did not feel it necessary to give this committee a list of all of my clients. These other clients are in personal injury cases, domestic relations cases, and any other cases that any attorney doing general practice would have.

That is the extent of my statement, Mr. Chairman.

CHAIRMAN McFALL: Am I to understand, Mr. Gabrielson, that the clients that you mentioned are those that would not have any direct financial interest in any way with this tidelands hearing or the taking away of the tidelands from the jurisdiction of the City of Long Beach?

GABRIELSON: That is true, and may I go further to say that they are clients, and from the standpoint that they are clients of my office, they are not clients from the standpoint of tidelands litigation, and I wanted to clarify that before this committee.

CHAIRMAN McFALL: And that would include any interest, I presume, in these so-called federal grants that - apparently the intimation has been made here that you or your office represents clients who would have some interest or financial gain result to them because of these federal grants or patents or whatever they are called, or for some other reason in this matter. Because of your testimony last time, I think the statement was made by me that by silence we could assume that those clients - or that you did have clients who did have that type of an interest.

Now, we are to understand, are we, by your statement this morning that you have not such clients? Have I got it right?

GABRIELSON: I stated, Mr. Chairman, that Alma Swart had a filing.

CHAIRMAN McFALL: I know that.

GABRIELSON: That's right. No one other than her. I did have one other client who was a federal applicant, but I have not seen that party in, well, at least a year. It might be closer to two years. I talked to him on the telephone once about nine months ago. That is all I have seen of him.

CHAIRMAN McFALL: All right, sir. Mr. Works, would you care to examine Mr. Gabrielson?

WORKS: I may have a few questions now, Mr. Chairman.

Mr. Gabrielson, you first became engaged in tide or submerged land matters in 1947?

GABRIELSON: Approximately that year, yes.

WORKS: Well you have said 1947 several times. Is that right or wrong?

GABRIELSON: I would say approximately 1947.

WORKS: What was the nature of the first employment which you undertook in connection with the tide or submerged lands?

GABRIELSON: I was contacted by a certain party in Long Beach concerning what he termed illegal gas expenditures by the City of Long Beach.

WORKS: And when was that?

GABRIELSON: I would say probably the latter part of 1947. I don't know the exact date.

WORKS: And who contacted you?

GABRIELSON: Mr. Works, I don't have his permission to tell you that. I think you know that.

WORKS: I don't know it at all. Do you decline to answer the question?

GABRIELSON: I don't have his permission to. I think it would be extremely embarrassing to the party, being from Long Beach, and I don't have his permission.

WORKS: Will you answer the question yes or no?

GABRIELSON: I don't have the permission of this party.

CHAIRMAN McFALL: Mr. Gabrielson is refusing to answer. Let the record show that he is refusing to answer.

WORKS: Very well. When did you first represent Mrs. Alma Swart, formerly Mrs. Alma Goetch, one of the federal applicants?

GABRIELSON: I believe that would be in - I believe that I talked to her the first time somewhere in 1947, but I am quite certain it was after I was contacted concerning the gas operations. When I say represent, Mr. Works, I want to clarify that, that I just talked to her. I did not, at that time, file any action for her.

WORKS: When did she first become a client of yours?

GABRIELSON: Well, I suppose it would be around 1947, Mr. Works, when I talked with her. Now, when you say a client of mine, she may have also talked to other attorneys, and she may have had other attorneys representing her. I couldn't say about that, but I did talk to her in 1947.

WORKS: Did she become a client of yours in 1947?

GABRIELSON: I can only answer what I have told you, Mr. Works. I talked to her. Now, I did not file anything for her.

WORKS: Will you read that question, please?

COURT REPORTER: Did she become a client of yours in 1947?

WORKS: Now, will you please answer that question?

GABRIELSON: I don't think that question can be answered yes or no. I talked to her and counseled with her.

WORKS: When did she first employ you as her attorney?

GABRIELSON: I would say that I represented her and counseled with her in 1947.

WORKS: Read the question, please.

COURT REPORTER: When did she first employ you as her attorney?

WORKS: Now will you answer it?

GABRIELSON: My answer is the same, Mr. Works.

CHAIRMAN McFALL: Is the answer 1947?

GABRIELSON: 1947. I would say that I talked to her and counseled with her in 1947.

WORKS: Was this employment in connection with her application under the Federal Mineral Leasing Act of 1920, as amended? Please answer that yes or no.

GABRIELSON: Mr. Works, the conversations which I had with her in 1947 I have no permission from her to go into. I can tell you that I talked to her; I can tell you I counseled with her, but I do not have permission. I might say in this connection, Mr. Chairman, that I believe it was about this time - I don't remember the exact year or the date - but she also had a personal injury matter about this time.

WORKS: You know perfectly well I am not interested in personal injury matters. Do you decline . . .

GABRIELSON: And you know perfectly well, Mr. Works, that I cannot give information concerning clients without their consent. Now, you know that.

WORKS: I am not asking for any communications from your client to you or vice versa. I am asking what the subject matter of your employment was and whether it related to the Federal Mineral Leasing Act of 1920 as amended.

GABRIELSON: Why, yes, I talked to her about the Federal Mineral Leasing Act, but I talked to her about other things also, Mr. Works.

WORKS: What do you know about the Cherry Petroleum Corporation, Mr. Gabrielson?

GABRIELSON: I know that it was a corporation formed in Nevada, and I did some work for them.

WORKS: Were they ever clients of yours?

GABRIELSON: For a time, yes.

WORKS: I mean that company.

GABRIELSON: Well, of course the company - I don't know whether you would - I don't remember now when the company was

formed, but they were clients for a while, yes.

WORKS: When did you first become attorney or an attorney, for the Cherry Petroleum Corporation?

GABRIELSON: That I could not tell you. I don't remember.

WORKS: Can you tell me within five years?

GABRIELSON: I would say probably around 1949 or 1950, somewhere in there, Mr. Works. That is about as close as I can . . .

WORKS: That is your best recollection.

GABRIELSON: That's right. That's about as close as I can get.

WORKS: How long did your representation of that corporation last?

GABRIELSON: Mr. Works, when you are talking about representation, now, you are talking about a field in which my representation - and I want to clarify this for the committee - a lot of the work of my representation of that company was not involved in tidelands matters. It was wholly separate from tidelands matters.

WORKS: I am asking only as to your representation of them with reference to tideland or submerged land matters. How long did that representation last?

GABRIELSON: Well, represent them how, Mr. Works?

WORKS: As an attorney.

GABRIELSON: In what connection? I don't follow you at all. The main representation I had with Cherry Petroleum had nothing to do with tidelands.

CHAIRMAN McFALL: Now, that's what we want to know. He wants to know with reference to tideland matters.

GABRIELSON: I don't think . . .

CHAIRMAN McFALL: We are confining ourselves to tideland matters.

GABRIELSON: Well, I don't believe I have filed anything or become of record anywhere with the Cherry Petroleum in connection with tideland matters. I can't remember anything now. There may be something, but I can't remember of any such thing.

WORKS: All right. Have you ever advised them with reference to tideland matters, and when I say tideland matters I am referring also to submerged lands.

GABRIELSON: Oh, yes, I have advised them from time to time. Yes, but they had other attorneys also.

WORKS: Is it not a fact that the Cherry Petroleum Corporation was formed for the purpose of furthering speculation in federal applications for the leasing of or entering upon submerged lands in California?

GABRIELSON: You would have to ask Mr. Cherry about that. I didn't form the corporation.

WORKS: Did you know of any activities in connection with the sale of the company's stock which had speculation for its purpose?

GABRIELSON: Oh, I knew of some. They told me of some, yes, but that's all I can tell you.

WORKS: All right, tell us all about what they told you with regard to sales of stock for speculation purposes with reference to the tidelands.

GABRIELSON: Mr. Works, I don't have permission to go into that. You certainly know that. I must have consent of clients to go into things like that. Those are matters which were

brought to my attention in my office.

CHAIRMAN McFALL: Now, gentlemen, what we are interested in here is Mr. Gabrielson's connections as to clients and present clients which would affect his testimony before this committee. We are interested in knowing his clients and connections so that we can determine whether or not his testimony is colored in any way. Now, if your question is going to elicit that type of information, Mr. Works, as to possible present bias or interest of Mr. Gabrielson, we are all right. Can you show me now, or tell me, how the conversations with the officers of the Cherry Development Company, or whatever it is, would show his present bias?

WORKS: Well, it seems to me that already this morning, Mr. Chairman, we have dredged up one additional client in connection with tidelands . . .

GABRIELSON: Mr. Works, I resent that. I told you about one additional client the last time we were here. Now I very definitely resent that. I will take the record out for you if you please.

CHAIRMAN McFALL: All right, now, he said he had Alma Swart . . .

GABRIELSON: And one other.

WORKS: The last time he declined to answer as to the identity of that other one, and this morning he has.

GABRIELSON: You did not ask me that, Mr. Works.

WORKS: Oh yes we did.

GABRIELSON: No, you did not. We will go into that right now.

WORKS: May I ask, Mr. Chairman, if the chair has any doubt about the fact that he declined to disclose the identity of any client of his at the last session other than Mrs. Alma Swart.

My recollection is very clear.

GABRIELSON: On Page 41, about the middle of the page:
"Yes, I have represented or consulted with - I don't think I am of record in any court case, but I have consulted with two federal applicants". And your question, Mr. Works, "Each under the Mineral Leasing Act of 1920, as amended?" "Yes, yes. There are dozens of them, as I understand it". There it is, right from the record I am reading. Then your next question is, "Your client, Alma Swart is one of them, I assume?" The answer, "Mr. Works, I am not an attorney of record for her in any of that litigation to my knowledge". Then you say, "Please, is not Mrs. Swart a claimant under the Federal Mineral Leasing Act?" Answer: "Why, your own map says so, Mr. Works, your own map". "And how many other clients do you have who are interested in federal filings on the submerged lands in the City of Long Beach?" Answer, "One". "Besides Mrs. Swart?" Answer, "Yes." "Now, have you had anything to do with drafting protective legislation?" You did not ask me the name of that other man, and I resent your inference, Mr. Works.

WORKS: Go ahead and resent it. Do you now represent the Cherry Petroleum Corporation?

GABRIELSON: The Cherry Petroleum Corporation is not an applicant as I understand it, Mr. Works.

WORKS: Will you please answer the question?

GABRIELSON: I don't represent them now, no.

WORKS: When did you last represent them?

GABRIELSON: I don't think I have represented them for two or three years, Mr. Works, maybe even longer. I don't know the

exact dates, but I haven't done anything for them for some time.

WORKS: Was not your one time associate, Kenneth E. Matat, one of the officers of the Cherry Petroleum Corporation?

GABRIELSON: You would have to ask Mr. Matat that. I believe he was an officer at one time.

WORKS: Is that your best recollection, that he was?

GABRIELSON: I believe he was.

WORKS: He was the secretary, wasn't he?

GABRIELSON: He may have been, yes.

WORKS: He was one of the organizers of the corporation, wasn't he?

GABRIELSON: That I couldn't tell you. I didn't organize the corporation.

WORKS: Were not Matat and yourself at one time associated in the practice of law under the firm name of Matat, Gabrielson & Manley?

GABRIELSON: Mr. Works, that is something else I would like to make very, very clear as I tried to do the last time.

WORKS: You would make it a lot shorter if you would answer the questions.

GABRIELSON: If you would quit interrupting, Mr. Works, I will; then I would also like to tell this committee certain facts that have happened this week.

Mr. Matat, Mr. Manley and I occupied a suite of offices as I told the committee the last time. For convenience, in case somebody was sick - maybe you gentlemen do not know it, but Mr. Matat was born a cripple, and it is extremely difficult for him to get to court - so, for convenience in some of his cases, in

order that other attorneys could appear for him or we could appear for each other, Matat, Gabrielson & Manley was put on a lot of pleadings, but at no time did we operate as a firm. Matat had his separate clients, Manley had his separate clients, I had my separate clients. We made separate tax returns. We had no partnership - at least I have none with them at all, and I am sure Mr. Manley and Mr. Matat had no partnership - and everything was done just as though we were separate identities. I did not have any of his clients, he did not have any of mine. In one or two instances, we did work together on cases, but Mr. Manley moved out after, I would say, oh, a year and a half, maybe, and at that time a Mr. Douglas Hitchcock came into the office. Mr. Douglas Hitchcock does almost one hundred per cent criminal law practice. I do almost no criminal law practice. After he came in, Mr. Matat still worked separately, Mr. Hitchcock did practically one hundred per cent criminal law practice, and I had my own practice.

Now, in this connection, I want to bring to the attention of the committee certain things that happened just this past week so the committee will know what I have in mind when I talk about intimidation, villification, and things of that nature.

On Monday of this week, two parties who know me were called by a person or persons unknown under the guise that I had made certain applications somewhere, and I will come to the point of where. Numerous questions were asked me - I mean were asked these two friends of mine, pardon me, about me. In this connection, I am making no accusations, but I want to point out one thing. Practically all the questions asked these two friends of mine were the same questions that are being asked me here. Naturally,

these two friends of mine happened to know there was something wrong in Denmark and didn't go into any detail on anything, but it is very significant, and may I point out to the committee the extent to which people go in trying to villify and trying to threaten and trying to damage credit. Now, I will tell you what happened in that situation. Under the guise that I had made an application for a loan with the California Bank, a certain party identifying himself as Mr. Masters called - as I say, I know two people, there may be others - saying that I had made an improper application and there was information they wanted to know. They wanted to know how long I was connected with Mr. Matat and whether we worked as a partner. And just for the record may I say that I have never done business with the California Bank. I have, to my knowledge, never stepped in the California Bank. I have not made an application for a loan at the California Bank, and I don't know a Mr. Masters at the California Bank. Now, again, I make no accusations, but I am just saying . . .

CHAIRMAN McFALL: Well, Mr. Gabrielson, apparently somebody was trying to find out some information about you. As long as your skirts are clean, why, the committee is not going to worry about it.

GABRIELSON: Well, I am not worried about it either, Mr. Chairman, only I don't like people to be - any of my friends to be bothered with this sort of nonsense.

CHAIRMAN McFALL: Well, when we get into this kind of thing, somebody is going to try to find out something, and in this type of investigation it is more or less usual, I imagine.

GABRIELSON: I think the committee is clear in its mind now,

about my relationship with Mr. Matat. We are not partners.

CHAIRMAN McFALL: All right.

WORKS: Can you find the last question please? It's quite a ways back.

COURT REPORTER: These questions concerning Matat?

WORKS: No, I want the last question.

COURT REPORTER: "QUESTION: Were not Matat and yourself at one time associated in the practice of law under the firm name name of Matat, Gabrielson, and Manley?"

WORKS: Now, will you please answer that question yes or no?

GABRIELSON: What do you mean by associated, Mr. Works?

WORKS: Exactly what I said.

CHAIRMAN McFALL: Now, just a minute. The committee understands that at one time Mr. Gabrielson was a member of this firm by that name under the circumstances which he outlined. Now, is that sufficient answer to the question? He was a member of this firm, he had his name on the door, and he did business as he stated. Now, do want any further answer to that, Mr. Works?

WORKS: No. I think the last answer exceeded anything even in Arthur Train for length as to an answer of "no". However, I will go on to something else.

Were not Matat, Gabrielson, and Manley the attorneys of record on the appeal in the Trickey case as recited in the opinion appearing at 101 Cal. App. 2d, 871, that name appearing at page 873?

GABRIELSON: Mr. Works, my answer is exactly the same as I said before. It may have appeared on papers and pleadings, but as I told Mr. Smith of this committee the last time, the Trickey

case was handled both in the trial court and on appeal by me, and solely by me, and if the papers show that name, they show it under the circumstances which I have already related. We were still working separately. In one or two instances, Mr. Matat and I did work together on a case, but they were very, very rare.

WORKS: Well, you have made quite a study of the opinion in the Trickey case, haven't you?

GABRIELSON: Why, yes, I am very familiar with the Trickey case.

WORKS: Don't you know that Matat, Gabrielson, and Manley appeared as attorneys of record on that appeal in the printed opinion in the Cal. App. reports?

GABRIELSON: If that is what appears - I believe that that is the way it is written in the report, but I am telling you under the circumstance of how I worked in the case, or my part in the case. I don't know that it makes much difference whether it is Matat, Gabrielson and Manley or whether it is Theodore R. Gabrielson. I am only telling you that I argued the case in the trial court, I argued it on appeal, and I believe every word in that case was written by me.

WORKS: Was not Matat attorney of record with you and so named in the complaint in intervention filed in the Mallon case?

GABRIELSON: Mr. Matat was - appeared - it was Theodore R. Gabrielson, I believe, and Kenneth Matat. But Mr. Matat saw no papers on the case, had nothing to do with the case, as I said the last time I was here. I don't know that it is material one way or another what names appear on the pleading. In the Trickey case, if you will remember, Schinberg and Schinberg, a Washington

firm appeared on it, but they had no active part in the case whatsoever. I don't know that the name has anything to do, particularly, with who handled the case.

WORKS: Was not Matat attorney of record with you on behalf of Alma Swart on the Mallon appeal as recited in the official opinion in that case?

GABRIELSON: In that case I told the printers that my name alone should be on it. It ended up with both names on certain pleadings, Mr. Works, and my name alone on certain pleadings. If you will notice the printing job on the original appeal, there were several very serious errors made, one of them which was very embarrassing to me. On the cover of the appeal - the opening brief - they said "In the Supreme Court of the County of Los Angeles". As you well know, there is no Supreme Court in the County of Los Angeles, so it was a printing error, and it was also an error to put Mr. Matat's name on that brief. I told them not to, but I didn't raise any particular objection when it did go on. But, in later briefs, I don't believe his name appears.

WORKS: It was no error when Matat's name appeared with yours on the complaint in intervention in the lower court, was it?

GABRIELSON: Oh, I never gave that much thought, Mr. Works. I guess the secretary put both names on it. As a matter of fact, most of the work on that appeal was written outside of my office.

WORKS: Has Matat ever been substituted out of the Mallon case?

GABRIELSON: Not to my knowledge. I just haven't given it much thought. He has had no part - as a matter of fact, I have

been away from that suite of offices for almost a year now, Mr. Works, and may I correct one thing that appears in the record. I believe I said that I left the suite with Mr. Matat at the beginning of 1954. That should be the beginning of 1955.

WORKS: Were you ever a shareholder of the Cherry Petroleum Corporation?

GABRIELSON: Mr. Chairman, do I have to give a list of all of my stockholdings, and so forth, before this committee, and how is it material to this hearing? I don't mind answering the question, but what is the purpose of . . .

WORKS: I can tell you the purpose.

CHAIRMAN McFALL: Apparently the purpose of the question, Mr. Gabrielson, as I understand it, this Cherry Development Company had something do with the leasing of these federal - what do you call them - federal grants.

WORKS: Federal mineral leases.

CHAIRMAN McFALL: Federal mineral leases. Mr. Works is endeavoring to show that Mr. Matat either had some relationship in that company, that that company has a financial interest or a direct interest in those federal leases, and would have some interest in a change of the situation as far as Long Beach tidelands are concerned. We have gone into your relationship with Mr. Matat and the corporation. Now the question is whether or not you have any stock in this Cherry Development Company. If you do have an interest in the Cherry Development Company, presumably you personally would have some interest in the federal mineral leases.

GABRIELSON: All right, Mr. Chairman.

ASSEMBLYMAN ALLEN: Mr. Chairman, before he answers this,

could I make an inquiry? I would like to inquire of Mr. Works whether he thinks the applicants on these tidelands that have been referred to at various times before this committee and the subject of those applications under the Federal Mineral Leasing Act of 1920, the Gerard Scrip Act and the Valentine Scrip Act have any material bearing on the investigation of this committee. I would like to know whether Mr. Works thinks it is material.

WORKS: Well, I don't know whether my thoughts would be material on that subject or not. I am interested now in showing the interest of this witness as a witness before this hearing.

GABRIELSON: Mr. Chairman, will I have . . .

CHAIRMAN McFALL: Just a minute now. Let's not all talk at one time.

ALLEN: It is either material or immaterial, and I would like to have Mr. Works opinion because if it is material, we are going to have to go into some other things.

CHAIRMAN McFALL: The chairman will rule that there is some slight materiality. This appeared at the last, or at least several previous hearings in which we argued as to whether or not they had any possible chance of getting any of this oil. I think the committee and the committee record will show just how much possible interest they would have, and I think Mr. Works, at some time in the past, has been asked a question and has made some remarks that the record will show. I think the committee understands that there is a possibility, but not a very great one, but that would probably be shown in more detail - well, it has been shown in detail up to now.

ALLEN: Mr. Chairman, I appreciate your ruling and I will

abide by it, but I would like to have Mr. Works take a position on it.

CHAIRMAN McFALL: Do you have a position, Mr. Works? Would you like to say as to whether or not you think that . . .

WORKS: Well, yes, I think anything dealing with the factual situation down there has materiality as far as the proceedings of this committee are concerned. We put into evidence a map here showing that the tide and submerged lands down there are simply criss-crossed and covered by these federal applications. I think the committee can almost take judicial notice of the fact that those interests have been hawked around, and the witness seems to me to have conceded this morning that he had heard that the Cherry Petroleum Corporation had something to do with speculation in those applications.

CHAIRMAN McFALL: Well, the question involved here is whether or not they are really very seriously considered as far as the interest of Long Beach is concerned.

ALLEN: Mr. Chairman, do I understand that the counsel for Long Beach says, "Yes, it is material"?

WORKS: I have said it is material to the deliberations of this committee, Mr. Allen. I can say I speak only from hearsay, but I can tell you this that our firm is engaged in litigation now, particularly in the Justheim case back in Washington, where some of these people are trying to mandamus the Secretary of Interior to issue them leases.

ALLEN: Is your firm counsel of record in the Justheim case?

WORKS: I believe Mr. Clary of our office, and Mr. Christopher, are attorneys of record in that case. As I say, this is

hearsay. I have had nothing to do with it, but there is a lawsuit going on in connection with these matters. In fact, I understand there are several of them. Mr. Grover can probably enlighten you thoroughly on that.

ALLEN: I wonder if you would be so good as to furnish the committee with copies of the briefs your firm filed in that case and also with the Department of Interior on the same subject?

WORKS: I would be happy to do so if the Chairman requests that they be produced.

ALLEN: You said it is material. I believe we would be interested in seeing those briefs.

ASSEMBLYMAN MILLER: Mr. Chairman.

CHAIRMAN McFALL: Mr. Miller.

MILLER: I think we have gone far enough afield in these collateral matters. The time of this committee is quite valuable, and as far as I am concerned, I want to get down to the meat of this Long Beach cocoanut and get away from this collateral.

CHAIRMAN McFALL: All right. Mr. Grover is instructed to look into the briefs referred to by Mr. Allen, and if he finds anything material in them that will be of assistance to this committee, he can glean that information and present it to this committee.

WORKS: We will be happy to give Mr. Grover full access to any documents we have in connection with that litigation.

CHAIRMAN McFALL: All right. Now, let's get back to the matter at hand here. The question, as I remember it - I don't think the reporter can find it . . .

GABRIELSON: I remember the question, Mr. Chairman.

CHAIRMAN McFALL: Whether or not you have any stock in the Cherry Development Corporation.

GABRIELSON: Sometime around 19 - I don't remember the exact date - I would say, maybe, about 1950, I did get, I believe, a token five shares; it may have been six shares of that stock. I couldn't tell you where it is now. I may have destroyed it. I do know that I have not even looked at it for maybe four years, and that is about the extent of my interest in the Cherry Corporation.

WORKS: You call this a token five shares. How many shares were outstanding, do you know, at that time?

GABRIELSON: I couldn't tell you. I think there were several thousand, maybe, Mr. Works, but I couldn't tell you. I don't remember.

WORKS: Did not the assets of the Cherry Petroleum Corporation consist in large part of federal lease applications or other federal statute applications with reference to the submerged land which had been either sold or assigned or transferred to the corporation?

GABRIELSON: I believe that there was a federal application involved. Yes, Mr. Works. There is no question about that.

WORKS: Cherry made an assignment of that particular interest, did he?

GABRIELSON: I don't remember whether he made an assignment or how the corporation got his rights, but I believe that the corporation has his rights, yes.

WORKS: Do you know what the coverage of the Cherry application was?

GABRIELSON: I don't believe I ever traced it on a map, Mr. Works.

WORKS: I believe that is shown on the map that has been introduced here.

GABRIELSON: I have never looked at that map, Mr. Works.

WORKS: I haven't checked it with this thought in mind either.

Now, were there any other applications, either under the Federal Mineral Leasing Act or under the Valentine Scrip Act or under any other federal statutes, also transferred to the Cherry Petroleum Corporation?

GABRIELSON: Not to my knowledge.

WORKS: Were you ever an officer of the Cherry Petroleum Corporation?

GABRIELSON: Mr. Works, that's kind of a strange story also. I believe they put me in as an officer once for about a year, or possibly a year and a half, and, actually, when I found out about it, I sent a registered letter resigning. I believe that was possibly a year or a year and a half. It was done without my knowledge.

WORKS: When did you find out that you had been designated as an officer?

GABRIELSON: I couldn't tell you that. It was sometime during that period. I never paid much attention to it.

WORKS: Around 1948 or '49?

GABRIELSON: Somewhere around there. Maybe 1949.

WORKS: Now, were you aware of an offer by Mr. Cherry to cut the City of Long Beach in on a settlement of the tidelands

in the year 1948?

GABRIELSON: I never heard of it until you mentioned it right here.

WORKS: All right. You said that you have acted as attorney for the corporation, Cherry Petroleum.

GABRIELSON: Mr. Works, in order not to belabor this committee, may I say that I think I have done far more work for citizens of Long Beach against the federal position in certain instances than I have for federal applicants. I mean, I think the point that you are trying to belabor here is that I have a deep, dark, insidious plot that I am trying to put over, and I would say for the benefit of this committee that I, as I said the last time, have counseled with people on the State's position and I have counseled with people on the city's position, in each case different. I have never had a conflict of interest involved in the thing, but as far this field is concerned, I have worked in it since 1947 and I presume people talk to me about it because maybe they think I know a little something about it. But I haven't just taken a straight line on the federal position or a straight line on the city's position or a straight line on the State's position any more than I would represent only wives in domestic relations cases. I represent husbands in certain cases also.

CHAIRMAN McFALL: Well, Mr. Gabrielson, were you ever the attorney for the Cherry Petroleum Company?

GABRIELSON: I was - you see, Mr. Chairman, there was - when you say "attorney", I don't believe we ever had any litigation or anything of that nature. I represented Mr. Cherry for a time, yes, but I haven't seen Mr. Cherry in a year and a half or maybe

two years. I talked with him once on the phone; I believe it was around April of last year.

CHAIRMAN McFALL: All right. Go ahead.

WORKS: Isn't it a fact that Matat represented Mrs. Swart, or Mrs. Goetch, before you did?

GABRIELSON: That I couldn't tell you. He may have.

WORKS: Isn't it a fact that you and he were both representing her in 1948?

GABRIELSON: That I couldn't tell you. I don't know whether - you say he was representing her. He probably talked to her when she came in and so forth. She also had some personal injury work at that time, and I believe he counseled with her on that, but you would have to ask him. I couldn't tell you that.

WORKS: Mr. Matat, during all this period, was very outspoken in his belief that nobody had any rights in the property of Long Beach except the federal applicants subject to the sixteen and two-thirds per cent Federal Government royalty, wasn't he?

GABRIELSON: I don't control Mr. Matat. I don't know what he said here and there. Mr. Matat is an outspoken person, yes, but I don't know what he said from place to place. I have no more control over Mr. Matat any more than I have over you, Mr. Works.

WORKS: Will you read that question, please?

CHAIRMAN McFALL: The question was whether or not Mr. Matat made these statements. If you know whether or not he made these statements, you may answer.

GABRIELSON: I don't know of any such statements.

ALLEN: Mr. Chairman, how is it material what Mr. Matat said?

CHAIRMAN McFALL: Well, if he knows, he can say, and he said

he doesn't know. Go ahead.

GABRIELSON: I don't know.

WORKS: Wasn't he outspoken as an advocate of the federal interests involved in these applications?

GABRIELSON: How do you mean outspoken? Where? Where did he say this and what did he say?

WORKS: Well, did he ever say to you that he believed that these applicants had the entire right to the oil and gas revenues in the submerged lands lying off the City of Long Beach?

GABRIELSON: I can't remember him ever making a statement like that, no.

WORKS: Would you say that he didn't make such a statement to you?

GABRIELSON: I would. I can't remember him making that statement to me, Mr. Works. That's all I can say. That's the answer to your question.

WORKS: All right, that's all.

GABRIELSON: May I say one further thing, Mr. Chairman?

WORKS: Thank you, Mr. Chairman.

CHAIRMAN McFALL: Now, wait a minute. Don't go away, Mr. Works. He is going to make another statement, and you may want to ask some more questions. All right, proceed.

GABRIELSON: Now, Mr. Chairman . . .

CHAIRMAN McFALL: Don't make it controversial, Mr. Gabrielson.

GABRIELSON: All right. If it is very material what somebody may have said five, six, or seven years ago, I suppose it could also be material if we went back and checked where certain Attorneys General of the State of California may have, at one time

or another may have said that they thought maybe the Federal Government had the right. If you will go back into the history of this tidelands situation as I have, somewhere along the line you are always going to find something like that, and may I just point out that Mr. Works' own associate, Mr. Clary, before a Senate committee was asked by Senator O'Donnell of Missouri on that very point, where a quotation was made of an Attorney General of the State of California wherein purportedly he recognized the federal rights, and Mr. Clary was asked about that statement. If you dig back, you are always going to find possibly something in some case that might say, "Oh, you took a position then contrary to what you are saying now," or something of that nature. In the field of law, as you gentlemen well know, you represent a certain client; there are some things said in connection with certain facts at one time which later on, when the Supreme Court takes a position or when the law is set forth as it was in United States v. California, you adopt that law and then you go on from there.

CHAIRMAN McFALL: Well, if this committee continues the way it has been, if anybody ever made a statement on anything, we are liable to hear about it.

Is that all now?

WORKS: If Mr. Gabrielson is through, I am.

CHAIRMAN McFALL: Mr. Grover has a couple of questions. Who do you want to ask them of, Mr. Gabrielson or Mr. Works?

GROVER: Of Mr. Gabrielson, Mr. Chairman. There are just a few things I wanted to clear up in your prepared statement.

GABRIELSON: May I just interrupt a minute, Mr. Chairman, to ask this? Will I have the right at a subsequent date to find out

whether Mr. Works has stock in Richfield Oil Company and Long Beach Oil Development Company?

CHAIRMAN McFALL: Well, I wish I had some.

GABRIELSON: I know that according - I mean if it is material for Cherry Petroleum, I suppose it is material for Richfield Oil and Long Beach Oil Development, Mr. Chairman.

CHAIRMAN McFALL: Let's assume that he has.

GABRIELSON: I don't think it is material in either instance, but I don't think it should be a one-sided proposition. However, I will abide by the chair's ruling.

CHAIRMAN McFALL: Go ahead, Mr. Grover.

GROVER: Mr. Gabrielson, do you have your prepared statement with you, the one which you . . .

GABRIELSON: I believe I have a copy.

GROVER: . . . read last time? There are just a couple of points I would like to clear up, and I don't think it will take more than a moment.

On Page 10, at the end of the paragraph at the top, you state that funds have been paid to O'Melveny and Myers from - moneys had been paid to O'Melveny and Myers from a fund containing trust funds.

GABRIELSON: Yes.

GROVER: Do you know the name of the fund from which the payments were made?

GABRIELSON: Yes. The General Purpose Fund.

GROVER: Thank you.

GABRIELSON: But that was the fund in which gas funds were transferred a few days before.

GROVER: I thought you might have had in mind a special trust fund.

GABRIELSON: No. No, Mr. Grover. I checked that with Mr. Mansell and I believe it is Mr. Beckman. I don't know what his position is. I think he is City Treasurer. I checked the records myself in the City Hall on that.

GROVER: And on Page 21, Mr. Gabrielson, at the bottom, the last paragraph, beginning, "When the Eisenhower administration came in office . . . ". Have you read the Submerged Lands Act of 1953?

GABRIELSON: Yes.

GROVER: In your opinion as an attorney, is there not a saving clause that completely protects the Federal Mineral Leasing applicants if their claims were valid before that act?

GABRIELSON: Well, Mr. Grover, I don't think you can answer that question just from the standpoint of a savings clause. I think we must remember that the Interior Department has turned down these applicants time and time again. That's the important thing. There is a savings clause in there - I don't know whether it is that Section 8 - I can't remember now whether it is that section which Mr. Works mentioned the other time, but if we take the position of the savings clause, and I believe there are words to that effect, I think the important thing is not the savings clause but the fact that the Interior Department has constantly said that the Mineral Leasing Act of 1920, as amended, does not apply to submerged lands. That is the big point in my opinion.

GROVER: Now, one other point about that. Remember last time we mentioned the Justheim case and you said that an opinion

had recently reached your office. Have you read that opinion since the last meeting?

GABRIELSON: I said my Oil Journal came down in the mail.

GROVER: I am sorry.

GABRIELSON: I just read a newspaper or an oil periodical article. No, I have not read - as a matter of fact, I made some inquiries yesterday to see if I could get a copy of the opinion. I wanted to read it before I came here, but I was not successful. I do know that they held against the applicants according to this article.

GROVER: Are you sufficiently familiar with the case to say that you believe you agree with that result?

GABRIELSON: I am not familiar at all with the case, Mr. Grover.

GROVER: On Page 40, Mr. Gabrielson, the third paragraph beginning, "The last of the two named cases . . . ", these Ramsey and Stevens cases - do you know how they turned out?

GABRIELSON: I know how they turned out, but I don't think I have anyone's permission - that is the attorney who told me how they turned out . . .

GROVER: Well, I meant only as a matter of public record.

GABRIELSON: Well, the public record shows that there was a dismissal.

GROVER: Did you know whether that was with prejudice or . . .

GABRIELSON: I believe it was with prejudice, yes, but as I say I was told what the action in the settlement was, but I was told in confidence.

GROVER: Yes. And later in that same page - this is my last

question - I understand your criticism is that the City of Long Beach's inventory was poor at one time by the admission, so to speak, of one of the officials. Do you feel that that has been corrected, or do you know whether or not that has been corrected? Are you dissatisfied with the inventory situation at this time?

GABRIELSON: I have tried to make inquiries along those lines, Mr. Grover, but the press of affairs, I suppose, both in the city and in the press of affairs in my office, I have not satisfied myself in that regard yet. I do know that prior to 1951 it was a very, very serious thing and called to the attention of the harbor commissioners in auditor's reports and in oral statements and elsewhere. But just exactly how it has been corrected since 1951, I have not been able to ascertain to my full satisfaction yet.

GROVER: Thank you.

CHAIRMAN McFALL: Thank you, Mr. Gabrielson. Now, we will take a short recess. After the recess, the first witness will be Mr. Madden.

ALLEN: Mr. Chairman, I have some questions I would like to ask of this gentleman.

RECESS

CHAIRMAN McFALL: Mr. Madden's testimony which was announced prior to the recess is not ready just now, and I understand Mr. Middough has some personal business he has to attend to, and so we will have Mr. Middough.

GROVER: Mr. Chairman, may I apologize to Mr. Middough for the short notice which he got from the subpoena which was served yesterday during the flood, but the spelling on your name, Mr.

Middough, was in error, and it was only yesterday that we got that corrected.

MR. LORNE MIDDOUGH: Thank you.

ALLEN: Mr. Chairman, is he going to testify now?

CHAIRMAN McFALL: Yes.

ALLEN: Well, we haven't finished with Mr. Gabrielson yet.

CHAIRMAN McFALL: I understand that you desire to ask some questions of Mr. Gabrielson. Mr. Middough has some personal business he has to attend to, and is it going to take very long with Mr. Gabrielson?

ALLEN: Well, I have some questions to ask him, but it is all right with me if he goes on now.

CHAIRMAN McFALL: Let's get him on now, and he can go on his way.

ALLEN: All right.

CHAIRMAN McFALL: Do you want to stand, Mr. Middough?

(Witness sworn by Chairman McFall)

Your name is Lorne Middough, is that right, sir?

MIDDOUGH: Yes.

CHAIRMAN McFALL: What is your address?

MIDDOUGH: 1121 El Mirador, Long Beach.

CHAIRMAN McFALL: All right, sir. Now, Mr. Allen, you have questions of Mr. Middough?

ALLEN: Yes, sir. Are you the gentleman who was a member of the Legislature in past years?

MIDDOUGH: Yes.

ALLEN: Assemblyman from Long Beach?

MIDDOUGH: Yes, sir.

ALLEN: And back in 1943 you were in the Legislature?

MIDDOUGH: Yes.

ALLEN: I show you a copy of a bill that you are co-author on. I wonder if you could identify it as one that you joined in introducing in the 1943 Session.

MIDDOUGH: The author is Mr. Howser?

ALLEN: Mr. Howser is the principal author.

MIDDOUGH: Yes, I think I was the co-author of this bill.

ALLEN: I would like to offer it in evidence, please. Now you recall that that bill was to . . .

CHAIRMAN McFALL: Let's identify the bill. It is a photostatic copy of Assembly Bill No. 589, date of introduction January 20, 1943, introduced by Messrs. Howser and Middough. It will be what number?

GROVER: No. 124.

CHAIRMAN McFALL: No. 124. All right, Mr. Allen.

ALLEN: Mr. Middough, the bill shows the proposed amendment to the 1911 Long Beach Tidelands Act to permit the city to use tidelands oil revenues for access roads, bridges, and like facilities to the harbor. Do you recall that?

MIDDOUGH: Yes.

ALLEN: And the bill was not passed, was it?

MIDDOUGH: I beg your pardon.

ALLEN: The bill was not passed?

MIDDOUGH: No. We didn't process the bill.

ALLEN: The city asked you to drop it?

MIDDOUGH: The city, the City Council and the harbor commissioners requested that I not process the bill. May I say, Mr.

Chairman and Mr. Allen, that prior to my laying the bill on the inactive file, Mr. Howser was appointed Los Angeles County District Attorney. Therefore, if there was any value in the bill, I thought I would process it myself and intended to do so until the Council and the harbor board requested that I drop the bill.

ALLEN: Mr. Grover, do you have those maps here that I asked about?

GROVER: Oh, no.

ALLEN: Can you get them for me?

Where do you reside, Mr. Middough.

MIDDOUGH: Where do I reside?

ALLEN: Yes.

MIDDOUGH: 121 El Mirador, Long Beach.

ALLEN: And what is your occupation at the present time?

MIDDOUGH: I am retired.

ALLEN: Do you own some property out near Alamitos Bay?

MIDDOUGH: No, my home is comparatively close to that general area.

ALLEN: Well, do you have some property out there that is used by the city as a dump?

MIDDOUGH: No, I do not own the property.

ALLEN: Do you operate a dump out there?

MIDDOUGH: I used to, but I have sold that.

ALLEN: During what period of time did you operate this dump?

MIDDOUGH: Since 1948.

ALLEN: And up to when?

MIDDOUGH: Up to three or four days ago.

ALLEN: Was that on the tidelands?

MIDDOUGH: It was, yes.

ALLEN: And did the city pay you for the use of that property?

MIDDOUGH: The city as well as other public agencies and the public generally.

ALLEN: And can you give us some idea what the city paid you during the period of operating that dump?

MIDDOUGH: I imagine that in recent years the city has delivered to that business - it's a corporation - as many as 5,200 tons a month to 6,200 tons a month.

ALLEN: And how was payment handled? Was there a rate per ton, or what?

MIDDOUGH: Yes.

ALLEN: What was the rate?

MIDDOUGH: One dollar and five cents a ton.

ALLEN: You mentioned a corporation. What was the name of that corporation?

MIDDOUGH: The name of the corporation, California corporation, is City Dump and Salvage, Inc.

ALLEN: And was that one you owned and operated?

MIDDOUGH: Well, a corporation owned it, and I was a member of the stockholders of the corporation.

ALLEN: When you say you sold the dump, do you mean the corporation sold it, or what?

MIDDOUGH: That's right.

ALLEN: Do you recall in 1947 a charter amendment was adopted in Long Beach under which the City Council was redistricted?

MIDDOUGH: Yes, I do.

ALLEN: And the charter amendment was approved by the Legislature,

and there was a special election held on the councilmen? Do you recall that?

MIDDOUGH: Naturally I do, yes.

ALLEN: And the charter amendment got on the ballot through the circulation of petitions?

MIDDOUGH: Yes.

ALLEN: Do you remember that?

MIDDOUGH: I do.

ALLEN: Did you have anything to do with circulating those petitions?

MIDDOUGH: I was chairman of the committee that advocated those charter amendments.

ALLEN: And what was the name - did the committee have a name or something?

MIDDOUGH: Yes. I hesitate to say definitely. As near as I can recall, it was the City Charter Amendments Committee, or something of that nature.

ALLEN: And in circulating those petitions and getting a new council elected, did you have any expenses?

MIDDOUGH: Yes.

ALLEN: Who put up the expense money?

MIDDOUGH: A committee - an executive committee representing the general citizens. Now, maybe I had better qualify that. As soon as I became the chairman at the request of a number of leading businessmen, Chamber of Commerce men, and public-spirited citizens, I formed a committee in each of the nine councilmanic districts, and it was those nine committees who elected an executive committee, and this executive committee retained me to manage

the campaign.

ALLEN: Who were the businessmen and public-spirited citizens who asked you to form this committee?

MIDDOUGH: Well, Julian Davis of the Bank of America. I think he was manager of the Long Beach area Bank of America.

ALLEN: Jonah Jones?

MIDDOUGH: Beg pardon?

ALLEN: Jonah Jones?

MIDDOUGH: Jonah Jones.

ALLEN: Ward Johnson?

MIDDOUGH: Ward Johnson wasn't very active in it as far as I can recall.

ALLEN: Larry Collins, Sr.?

MIDDOUGH: No. He wasn't active in it. He was editor of the paper.

ALLEN: Will Reid?

MIDDOUGH: Not directly with me.

ALLEN: Did you get any money from Jonah Jones?

MIDDOUGH: Attorney John McCollin and Mr. Roseberry, who happens to be present now, and a newspaper editor by the name of Harvey Harris, and Llewellyn Bixby, Jr.

ALLEN: Which newspaper was Mr. Harris with?

MIDDOUGH: The Signal Hill Tribune, I believe, is the name of his paper.

ALLEN: Did Jonah Jones put any money into this campaign?

MIDDOUGH: He may have. I don't know where the money came from for the campaign.

ALLEN: Did you receive any money or handle any money yourself

that came from Jonah Jones?

MIDDOUGH: Yes.

ALLEN: How much?

MIDDOUGH: I don't recall. Just enough to successfully put over the campaign.

ASSEMBLYMAN WILLIAM S. GRANT: I think you misunderstood that question. Will you ask it again.

ALLEN: Read it back, please.

COURT REPORTER: "Did you receive any money or handle any money yourself that came from Jonah Jones?"

MIDDOUGH: Well, the answer is yes.

COURT REPORTER: Then the question, "How much?"

MIDDOUGH: I don't remember.

ALLEN: Do you know where Mr. Jones got the money?

MIDDOUGH: I do not. I only stipulated or specified when I became chairman at the request of a number of businessmen, as you say, that I wanted nothing to do with the handling of the money or raising of the money, or no responsibility from that standpoint.

ALLEN: Did you have a separate treasurer for this campaign?

MIDDOUGH: I believe so, yes.

ALLEN: Do you know his name?

MIDDOUGH: I have forgotten whether Mr. Harris acted as treasurer or not.

ALLEN: And would I be correct in stating that Jonah Jones put up the bulk of the money in that campaign?

MIDDOUGH: You may state that, but I wouldn't verify it.

ALLEN: You don't know?

MIDDOUGH: I do not know. That's right.

ALLEN: Do you know that at that time Jonah Jones was one of the attorneys for Long Beach Oil Development Company?

MIDDOUGH: Did I know at that time?

ALLEN: Yes.

MIDDOUGH: I think I knew or learned that during the campaign.

ALLEN: Do you know the names of any other people who put money into that campaign?

MIDDOUGH: No. I had nothing to do with the raising of the money.

ALLEN: Now, the purpose of that campaign was to remove the city council that was in office at that time. Isn't that correct?

MIDDOUGH: I don't think that would be correct.

ALLEN: Well, what was the purpose?

MIDDOUGH: We felt - and I say we, the committee, felt because I wasn't so active in civic affairs at the time - I was just winding up my last term in the Legislature - and they felt, I believe, that they could pick out better city councilmen. Or I will put it this way. As I recall, of the nine councilmanic districts, one of them had around 14,000 voters, and others had as many as forty or forty-two thousand, something on that order. I have forgotten. They wanted to equalize the districts. Therefore, we attempted to do so and advocated the new district lines in the amendments. There were three, and they were adopted and approved by the Legislature, so I wouldn't say it was to get rid of the city council. That resulted, however.

ALLEN: Do you recall that at that time the majority of the city council - there was a majority of five known as the "Solid Five"?

MIDDOUGH: Yes, I do.

ALLEN: Do you know their names?

MIDDOUGH: Well, I think it was Mr. Lewis, who was Mayor, and Mr. Moxley, Mr. Crawford, and Mr. Brower was with them part of the time. Occasionally he would vote with the "Solid Five". There was one more; I have forgotten his name right now.

ALLEN: Pheely? Paley?

MIDDOUGH: Mr. Paley, yes.

ALLEN: Did you tell anybody during that campaign that the "Solid Five" had solicited payoffs on the tidelands oil contracts?

MIDDOUGH: No, sir, I did not.

ALLEN: You didn't make any such statement?

MIDDOUGH: No.

ALLEN: Now, I understand you were in office as an Assemblyman during 1947? Is that right?

MIDDOUGH: No, my term ended December 31, 1946.

ALLEN: Now, when did you get your dump contract from the city?

MIDDOUGH: 1948.

ALLEN: Do you remember what time of the year it was?

MIDDOUGH: About June, I believe. June 25th, or some place around there.

ALLEN: Was that approved by the new city council?

MIDDOUGH: By the new one that went into office?

ALLEN: Yes.

MIDDOUGH: Yes, I think it was.

ALLEN: Now, before you opened that dump, did you go to Mr. Crawford and invite him to participate with you in the business?

MIDDOUGH: No, not that I recall because . . .

ALLEN: Francis Crawford, whom you said was one of the "Solid Five".

MIDDOUGH: Yes. I didn't go to him.

ALLEN: You did not?

MIDDOUGH: That's right.

ALLEN: Are you sure?

MIDDOUGH: I didn't need any help on that.

ALLEN: Who put up the money for this development?

MIDDOUGH: I did.

ALLEN: Mr. Middough, I will show you a map that is one of the exhibits . . .

GROVER: No. 111

ALLEN: . . . that we have.

CHAIRMAN McFALL: Let the record show that Mr. Allen is showing No. 111, Exhibit No. 111.

ALLEN: Can you show us on this map where your dump was located?

MIDDOUGH: Right in here. On both sides of the Pacific Coast highway.

CHAIRMAN McFALL: Now, wait a minute. We are trying to record this. If you are going to talk, you will have to speak so that the mike will pick it up.

GRANT: Mr. Chairman, it seems to me that we are going a little bit far afield, aren't we?

CHAIRMAN McFALL: Just a moment now. Mr. Grant wants to know whether or not we are going far afield. Mr. Allen, you are going to show some connection between this location of this dump and

something that has connection with this operation of the Long Beach Oil Development Company or the tidelands in some way?

ALLEN: Well, Mr. Chairman, I have never talked to the witness before, so, frankly, I don't know what he is going to say, but I would like to get the location of the dump which he has already referred to. It won't take but a few minutes.

CHAIRMAN McFALL: All right.

ALLEN: Could you point to . . .

MIDDOUGH: Mr. Chairman, I am looking at a part of the map, and there is a capital "R", period; Capital "S", period; then, immediately to the right is the Pacific Coast highway, immediately to the right of the Pacific Coast highway is the letter 54-24-26. That is the area on which I have a lease, or did have until I sold the corporation - the corporation had the lease - for the disposal site.

ALLEN: Now, would you take the end of the pencil, please, and just draw a circle around the approximate location of the dump we talked about. Just mark it on the map with the pencil, will you, please? That pencil mark is the area of the dump, is that right?

MIDDOUGH: That's correct.

ALLEN: Thank you. That's all.

CHAIRMAN McFALL: Does anyone else have any questions of Mr. Middough? No? Thank you very much, Mr. Middough. You are excused. You don't need Mr. Middough at any further point?

ALLEN: No, sir.

CHAIRMAN McFALL: Thank you very much, Mr. Middough.

Now, Mr. Madden, are you ready?

(Witness sworn by Chairman McFall)

CHAIRMAN McFALL: Your name is James Madden?

MR. JAMES A. MADDEN: James A. Madden. That is correct, sir.

CHAIRMAN McFALL: Where do you reside, Mr. Madden?

MADDEN: Paso Robles, California.

CHAIRMAN McFALL: And what is your representative capacity?

MADDEN: That of the City of El Paso de Robles, the City Attorney thereof, and I desire at this time to deliver a copy of Resolution No. 932 from this city, dated January 16, 1956, to you as Chairman of the committee.

CHAIRMAN McFALL: Mr. Grover, what number?

GROVER: No. 125.

CHAIRMAN McFALL: No. 125. Thank you.

MADDEN: And I have several copies of my statement which I have just been able to get typed in final form.

CHAIRMAN McFALL: The statement which Mr. Madden is going to give to the committee is No. 126. Go ahead, Mr. Madden.

MADDEN: From 1939 to 1946 I was interested as an attorney for various persons who filed applications for oil and gas leases on submerged lands lying below the low tide line in Long Beach and other areas in the State of California. These claimants were the first - I have first in the statement - I believe it was the first - in the order of priority for exploratory and developmental oil and gas leases to file with the Land Office of the Department of Interior for leases under the U.S. Government Amendatory Leasing Act. I believe that is the Act of 1920.

Insofar as the current hearings are concerned, I am appearing on behalf of the City of El Paso de Robles pursuant to resolution of its City Council, and have been authorized to explain

the position of this city regarding the Long Beach tidelands that were granted by the State of California.

Numerous witnesses have previously appeared before your committee, both on behalf of the City of Long Beach and in opposition thereto. Many cases have been cited, and additional cases will undoubtedly be presented by the counsel for this committee.

My presentation is in two parts: first, the position of the League of California Cities insofar as the Long Beach tidelands question is concerned; and second, the position of the City of Paso Robles and its recommendations to your committee.

Last November Mr. Richard Carpenter, Counsel and Executive Director of the League of California Cities, appeared and presented his statement on behalf of the directors of this League. In his statement he refers to a resolution introduced at the annual convention of the League of California Cities held during September of 1955.

Since the cities of California which comprise the League - that is the League of California Cities - have never been asked to express an opinion on the Long Beach tidelands question or the pending Allen bill, I introduced a resolution at the City Attorneys' Department of the League at its annual convention in San Francisco last September. The three members of the City Attorneys' Resolution Committee were not available at the time and place called by the chairman of the City Attorneys' Department to meet, receive and consider resolutions. The chairman of the City Attorneys' Department then appointed a new resolutions committee of three city attorneys to act as its resolutions committee and to meet at 2:00 p.m. on the last business day of

the convention.

My resolution, a copy of which has already been deposited with your committee by Mr. Carpenter, and all other resolutions introduced to the City Attorneys' Department were tabled, since the City Attorneys' Department did not have time to consider any resolution. I therefore presented the same resolution - I should say concurrently - to the General Resolutions Committee of the League itself, which likewise did not meet until late on the last business day of the convention. With the support of Mr. Harry Ross, Controller of San Francisco, my resolution was referred to the Board of Directors of the League of California Cities for consideration at their next meeting. I understand this next meeting has just been held in Sacramento, but I have not been informed of what action they took on the resolution.

Up to the time this Assembly Judiciary subcommittee started its Long Beach tidelands hearings, the only action I know of taken by the Board of Directors of the League of California Cities was a resolution passed at their quarterly meeting on April 21, 1955. This resolution is as follows:

"It was moved and seconded that the League of California Cities oppose any legislation which would take from cities any uplands or tidelands and revenue derived therefrom, so long as the cities involved devote the uplands or tidelands and the revenue therefrom to purposes consistent with the purposes of the grant. Unanimously adopted."

This was later reaffirmed at the July, 1955 meeting of the Board of Directors of the League.

My point is that the League of California Cities professional staff has been active in favoring the City of Long Beach, but the member cities of the League have not been given the opportunity

to approve or disapprove of the stand taken by the League staff and of Mr. Carpenter in particular.

Point number two: The position of Paso Robles insofar as the Long Beach tidelands hearings are concerned. In 1911 the State of California deeded tidelands and submerged lands lying within the corporate limits of the City of Long Beach to Long Beach upon certain conditions and trusts. These conditions and trusts are defined in the case of Long Beach v. Marshall, 11 Cal. 2d. 609 at 613, as follows: (By the way, the Statutes of 1911)

"To be held forever by said City and by its successors in trust for the uses and purposes and upon the express conditions solely for the establishment, improvement and conduct of a harbor and the construction of anything necessary or convenient for the promotion of commerce and navigation."

The recent case of Mallon v. City of Long Beach, 44 Cal. 2d 199 at page 205, cites with approval the City of Long Beach v. Morse which is reported in 31 Cal. 2d 254, as follows:

"The proceeds from the sale of oil and gas from the lands in question may not be used for any purpose other than those expressed in the trust conveyances under which the City of Long Beach claims title to the lands."

And at page 206 of the Mallon case, the court further states in the majority opinion:

"Furthermore, we can see no real distinction between reclamation of peripheral lands that become, in the course of harbor development, unusable for purposes of the trust and the reclamation of part of the minerals imbedded in the lands subject to the trust that likewise become unnecessary for the purposes of the trust." (Petition for rehearing of the Mallon case, as you know, was denied May 4, 1955).

Oil and gas revenues from the Long Beach tidelands have been used for the development of a fine man-made harbor, a purpose consistent with the state grant. However, many millions of

dollars are unexpended and unearmarked, as far as I understand, for the trust purposes and are being held on deposit. Recently the Attorney General of California has commenced litigation to recapture these funds and for an account of the revenue for funds previously expended.

During the 1955 Session of the California Legislature, the Allen bill was introduced to set legislative machinery - I should say to establish legislative machinery to recapture revenues in excess of the trust purposes from the Long Beach tidelands.

Some of the problems confronting your body and the entire Legislature of California are:

1. Should there be an accounting of the Long Beach tidelands funds previously expended by Long Beach for general municipal purposes, or any purposes for that matter?
2. What should be done with the impounded funds?
3. What course should be pursued as to future revenues?

As to the first point, I feel that, while charges have been made against various officials of Long Beach, little would be accomplished by proceeding with bitterly protracted and expensive litigation seeking an accounting for all funds expended to date. Should a decision for an accounting be rendered adversely to the City of Long Beach, the officials responsible would not be penalized to the extent of the individual property owners. A just compromise might be worked out.

Second, as to the status of the funds on deposit, I believe a legislative determination should be made in conformity with the Supreme Court's decision in the Morse case holding that the tidelands grant was in trust, and in the Mallon case determining

that the surplus revenues are to be held for the benefit of all of the people of the State of California.

These funds, I believe, should revert to the State of California to be used and expended for the benefit of all the people of this State.

Third, what should be done with the future revenues accruing from the tidelands oil and gas income? I believe a fair percentage, and I am certainly not qualified to determine what it is, which might from time to time fluctuate, should be retained by the Board of Harbor Commissioners to be expended in an economic and sound manner in strict conformity with the trust purposes of the tidelands grant. I understand from time to time the Supreme Court has enlarged the exact purposes. We, of course, cannot take umbrage with the Supreme Court. These funds could be budgeted on an annual or other reasonable periodic basis and should be used or committed within such period for the trust purposes alone.

The remaining percentage of revenue should be deposited in the State General Fund to be allocated in the sound discretion of the State Legislature for the use and benefit of all the people of California

The term "use and benefit of all the people of California" is a broad one and might be considered vague. Some of the purposes which immediately come to mind are as follows:

1. Flood control structures with incidental facilities for storage and distribution of adequate water; adequate water supplies will assure a continued and healthy growth of our State.
2. Additional assistance through state financing for our network of major and connecting state highways.

3. Recreational purposes.

That is principally why I am here. Our county is pretty much of a park area, quite untouched - San Luis Obispo County. This could be accomplished by the acquisition by the State of additional ocean beaches and the construction of many additional state parks which can be used and enjoyed by all of our people as well as by out-of-state visitors.

I have additional copies here, Mr. Chairman.

CHAIRMAN McFALL: That finishes your statement, Mr. Madden?

MADDEN: That finishes the statement.

CHAIRMAN McFALL: Thank you very much. Does anyone have any questions of Mr. Madden? If not, then, thank you very much.

GRANT: Just a moment.

CHAIRMAN McFALL: Bill?

GRANT: Mr. Madden, have you ever been in Long Beach?

MADDEN: Yes, indeed.

GRANT: Have you been in the harbor?

MADDEN: Yes. I used to sail around there.

GRANT: Have you been there in the last few years?

MADDEN: No, I have not, sir.

GRANT: Are you aware of the sinking that is taking place there?

MADDEN: I understand - I have read that subsidence is a problem.

GRANT: You haven't seen it?

MADDEN: I would imagine that subsidence in the harbor area might very well be considered a harbor purpose. I am not qualified to answer that.

GRANT: Have you any tidelands in your city?

MADDEN: Our city does not have tidelands. That is correct.

GRANT: You also suggested, I think, in your statement - I haven't one before me - that it is your opinion that they shouldn't go back into past expenditures?

MADDEN: Yes. I tried to be quite specific on that. I think that a very, very protracted accounting suit may be extremely costly and will prevent the whole situation from being finally determined.

GRANT: Then, Mr. Madden, you are not indirectly suggesting that we would have been better off had we spent all the money?

MADDEN: Well, I think as far as the funds are concerned. if they have been spent for trust purposes, I certainly could have no objection to them.

GRANT: Well, of course, that's right. In other words, there would be no case if we had spent all of the . . .

MADDEN: For trust purposes, Mr. Grant.

GRANT: I understand. That's all, Mr. Chairman.

CHAIRMAN McFALL: That's all, Mr. Madden. Thank you very much.

MADDEN: Thank you.

ALLEN: Mr. Chairman, I wonder if Mr. Fitzgerald has come in?

CHAIRMAN McFALL: Calling Mr. Fitzgerald. No.

Now, you have some questions you want to ask Mr. Gabrielson. Is that right, Mr. Allen?

ALLEN: Yes. I don't know how long it will take. We also have the Deputy Attorney General here and somebody from the Lands Commission. Whichever order you want to call them in will be all right with me.

CHAIRMAN McFALL: Well, now, it's five minutes to twelve. We can go a few minutes over. Of course, if we go over we will probably be late getting started at two o'clock. Suppose we start at 1:30. Would that be satisfactory? We could go to lunch right now. Would that be better? All right, let's go to lunch now and be back at 1:30.

1:30 p.m.

CHAIRMAN McFALL: The meeting will please come to order. Mr. Allen, how do you want to handle this?

ALLEN: Well, if you want to put Mr. Hortig on next, it's all right with me.

CHAIRMAN McFALL: It doesn't make any difference to me.

ALLEN: Well, let's get Mr. Gabrielson back then.

Mr. Gabrielson, in your statement on the case, you mentioned several gas contracts. I wonder if you could refer to the ones that were introduced this morning and tell the committee whether those are the contracts you were talking about in your statement.

GABRIELSON: If I may see them, please, Mr. Allen.

GROVER: These are exhibits 120, 121 and 122.

GABRIELSON: Exhibit No. 120. Yes, the first one I am looking at here is the December 28, 1939 contract which I had reference to in my prepared statement. Exhibit No. 121 under date of December 9, 1942, is the second of the contracts which I mentioned in my prepared statement. This one is with the Wilmington Gasoline Company. And Exhibit No. 122 under date of July 8, 1944, the City of Long Beach and the Wilmington Gasoline Company, is the third one that I had reference to, Mr. Allen.

ALLEN: And I understand that there was a change in the

handling of the gas around 1947 or '48 under which the city commenced to sell gas instead of buy it?

GABRIELSON: Yes, there was.

ALLEN: Is that by further contract?

GABRIELSON: Well, they made a contract with Southern California Edison after that, Mr. Allen, whereby they received considerable revenue which they had not received previously.

ALLEN: And that is the one that is referred to in the statement by former City Manager Wirsching.

GABRIELSON: That's right, Mr. Allen.

ALLEN: Now, one of the questions you were asked at the last meeting of the committee was about a recent transfer of gas funds to the General Purpose Fund. I think we got a resolution this morning. Do you have it, Mr. Grover? Is that the one you are talking about?

GROVER: Exhibit 123.

GABRIELSON: Yes, this is the one under date of October 4, 1955, that I was telling Mr. Weinberger about whereby \$165,000 was transferred from the Gas Revenue Fund to the General Purpose Fund. It is Resolution No. C-15632 of the City Council.

ALLEN: Do you consider that includes trust funds?

GABRIELSON: I don't think there is any question about it. It is out of a fund that includes trust funds, yes.

ALLEN: Now, another thing you mentioned in your statement was an affidavit by the manager of the City Gas Department, I think, on the inability of the city to measure the gas. Do you have such an affidavit?

GABRIELSON: Yes, I do, Mr. Allen. If the committee desires,

I will put it into evidence. However, it is my only copy, and if I may be permitted, I would like to make a photostat of it and put it in.

ALLEN: Would you do that for us?

GABRIELSON: Yes, I would, because this is the only copy I have. It was served on me in connection with the Trickey case.

GROVER: That will be No. 127.

ALLEN: Do you have it with you?

GABRIELSON: Yes, I do.

ALLEN: Could you give us the date of it?

GABRIELSON: Surely. The affidavit of Mr. Partridge was appended to a pleading called "Return to Order to Show Cause and Points and Authorities in Opposition to the Granting of Any Order or Writ", and it was served on me and filed in Case No. 564499 in the Superior Court of Los Angeles County. Now, this affidavit is dated under date of 16th day of September, 1949. It was sworn to before Corinne, C-o-r-i-n-n-e M. Hansen, H-a-n-s-e-n, who is a notary public.

ALLEN: Now, you also mentioned the tidelands in the Marina section where the city has been buying some property out there. Are those tidelands any different as to the title or nature than those we are talking about under the 1911 Act?

GABRIELSON: Basically, as far as the trust, no.

ALLEN: Well, did I understand these were patented to individuals separately or before the 1911 Act?

GABRIELSON: That is true, Mr. Allen. That is why I qualified my answer and said "as to the trust", because I have explained in my prepared statement our courts have held, as recently as

1936 in the Newport case, that even though it was patented, it was not patented by the State of California or by the Legislature with the idea in mind that these lands were no longer necessary for the trusts. Therefore, the court held that the trusts went along with the lands.

ALLEN: Even though they were patented to individuals, they are still subject to the trust.

GABRIELSON: That's right, Mr. Allen. The California Fish case first set that principal out.

ALLEN: And I understand under this Newcomb v. the City of Newport Beach, the City of Long Beach has the right to use that property for commerce, navigation and fishing?

GABRIELSON: That is my understanding of the law, and as I said, the City Attorney of Long Beach wrote an opinion to the same effect.

ALLEN: And I understand that notwithstanding that decision, the city has spent some of this tidelands money to buy some of this patented tidelands?

GABRIELSON: Yes, they have.

ALLEN: Do you know how much?

GABRIELSON: Well, the documents which I have put into evidence, Mr. Allen - that was \$135,000, I believe, on that deal. I don't have the copy in front of me right now, but I believe that is accurate.

ALLEN: There is another purchase pending?

GABRIELSON: The council minutes show that as of July 5th Mr. Vickers had recommended to go ahead on a new one for \$215,000, I believe, and the city attorney was instructed to draw up the contract.

ALLEN: Do you know whether that has been consummated?

GABRIELSON: Well, I have asked around the City Hall. It's not in the City Clerk's office. I asked Mr. Mansell in the Auditor's Office if he knew anything about it, and he said he didn't; I believe he testified to the same effect before this committee. I haven't been able to find it, no.

ALLEN: Now, we have had some testimony before this committee regarding the construction of bridges, access roads, and highway improvements, Ninth Street bridge, the Ocean Avenue bridge, and such things which are not on the lands covered by the 1911 Act. Do you have an opinion on whether that is a proper expenditure under the 1911 Act?

GABRIELSON: I most certainly do. In my opinion, I do not believe it is a proper expenditure. The acts themselves, as I said in my prepared statement, particularly point out that these appurtenances can be built on the lands.

ALLEN: Do you feel that the 1911 Act limits expenditures of this oil money for those purposes such as these things on the lands covered by the acts?

GABRIELSON: All three acts read the same way, Mr. Allen, the 1911, the '25, and the '35. They all use the same language in that connection.

ALLEN: Do you have a map that shows the boundaries of the land covered by the 1911 Act?

GABRIELSON: No, I haven't with me, Mr. Allen. I think that would be a very interesting point to probably be litigated in court, because there have been considerable questions about it.

ALLEN: Mr. Gabrielson, I will show you a map which I will

identify as coming from the Department of the Interior, U. S. Geological Survey, edition of November, 1902, reprinted in 1934, Downey, California, 801 .

52,500

I will show you what appears to be a bay or submerged tidelands north of the sandspit along which used to run the Terminal Island Railroad. I will ask you if that isn't where the inner harbor of the City of Long Beach is at the present time.

GABRIELSON: I believe, generally speaking, yes, that is the area of the inner harbor.

ALLEN: That is where this bay is in the lower lefthand corner that appears in blue?

GABRIELSON: As shown on this map, yes.

ALLEN: I will offer this as an exhibit.

CHAIRMAN McFALL: What number, Mr. Grover?

GROVER: No. 128.

ALLEN: I would like to have the committee take note of the bay that appears down in the lower lefthand corner of the map. Mr. Gabrielson, I will show you another map which apparently is an overlay of some of the inner harbor and installations around it, overprinted on an enlargement of that same bay. I ask if to the best of your knowledge, without endeavoring to be strictly accurate, doesn't that overlay correctly show the installations and property in the vicinity of the inner harbor?

GABRIELSON: Generally, yes, Mr. Allen.

ALLEN: You are familiar generally with that area and the overlay appears to correctly set forth those installations?

GABRIELSON: I am familiar with them, yes.

ALLEN: I will offer that overlay as the next exhibit.

GROVER: No. 129.

ALLEN: I would like to make it clear this is not offered as an accurate map but only to illustrate an overprinting of the inner harbor area upon that bay which I have just referred to.

Now, Mr. Gabrielson, do you know whether there is a court proceeding involving the question of whether that bay, which now appears to be in private ownership, was included in the 1911 Long Beach Act?

GABRIELSON: Mr. Allen, could we have that question again? In handing the map back, I think I lost your thought.

ALLEN: Yes.

COURT REPORTER: Now, Mr. Gabrielson, do you know whether there is a court proceeding involving the question of whether that bay, which now appears to be in private ownership, was included in the 1911 Long Beach Act?

GABRIELSON: I don't believe there is any proceeding now. There was a proceeding in 1939, Mr. Allen.

ALLEN: In federal court?

GABRIELSON: It started in the Superior Court of Los Angeles County and then was transferred to the federal court.

ALLEN: Was the State a party to that proceeding?

GABRIELSON: Not to my knowledge. I don't believe they were.

ALLEN: Did you appear in that one . . .

GABRIELSON: No.

ALLEN: . . . for any of the parties?

GABRIELSON: No.

ALLEN: Could you briefly describe to us what the case is about and what the effect was?

GABRIELSON: Yes, Mr. Allen, I would be glad to. That was a case which the City of Long Beach started in the Superior Court of Los Angeles County, and later it was transferred to the federal court here in Los Angeles. It was a suit by Long Beach for, I believe the complaint said, declaratory relief, accounting, and to quiet title. Generally, what the city was trying to do was this. They claimed that in that inner harbor area certain land in there - I believe some four or five hundred acres - was tide and submerged lands and that the city was entitled to these lands because of the grants from the State of California. The defendants in the case, Mr. Allen, were the Union Pacific Railroad, the Southern California Edison, and the, I believe, Salt Lake and Los Angeles Railroad.

ALLEN: Let me interrupt you right there, Mr. Gabrielson. I will show you another map which I will identify as coming from the City of Long Beach Harbor Department entitled "Port of Long Beach, California", dated May 10, 1949. I will ask you if this doesn't show at least some of the parties you just referred to such as Union Pacific Railroad and Southern California Edison Company as property owners in the area of the inner harbor?

GABRIELSON: Yes, Mr. Allen, that's generally accurate.

ALLEN: I will offer this as the next exhibit.

GROVER. No. 130.

ALLEN: Will you proceed with the answer to the first question?

GABRIELSON: Well, that case was started, I believe, in about April of 1939, this case that was started in the superior court and transferred to the federal court. The file, as I remember it, shows some 14 or 15 months of proceedings; I believe a judgment

was finally entered in July of 1940. It started in April of 1939, and the judgment was entered in July of 1940. The various defendants, Union Pacific, Southern California Edison, and the others that were defendants, claimed that this was land which they had acquired by various conveyances; they said it was land within the boundaries of the original ranchos and confirmed to either Juan Temple or Manuel Dominguez, then through the six daughters of Manuel Dominguez, came down through various conveyances to these defendants. The sum and substance of the case is that the court found that the City of Long Beach was not entitled to these lands, but I think the very interesting thing in the case is that after a judgment was entered, and it was a comparatively fast proceeding in view of the complexity of it, there is a paper on file that the City of Long Beach waived their right of appeal. Some of us, as attorneys . . .

ALLEN: Gave it up?

GABRIELSON: Well, that is what the file shows. I was not present in the case, but the file shows a waiver of appeal by the City of Long Beach after the trial court opinion.

ALLEN: Didn't that case involve a pretty substantial sum of money?

GABRIELSON: Oh, I would say that it involved hundreds and hundreds of millions of dollars, Mr. Allen. There isn't any question about that. I might point out, also, in that case that the defendants were represented by O'Melveny and Myers, so if we are to proceed on Mr. Works' theory concerning the Cherry Petroleum, I am wondering whether a point shouldn't be made concerning these defendants against the City of Long Beach in that

proceeding. There was no appeal taken from the trial court, Mr. Allen.

ALLEN: That's all I have, Mr. Chairman.

CHAIRMAN McFALL: Does any other member have any questions?

GRANT: Yes, I have.

CHAIRMAN McFALL: Mr. Grant.

WORKS: May I ask a question, please?

CHAIRMAN McFALL: Mr. Works, would you like to ask some questions?

WORKS: The case you are mentioning was tried before the Honorable Ralph Jenney, Judge of the United States District Court for this district, now deceased?

GABRIELSON: You are asking me that question, Mr. Works?

WORKS: Yes, sir.

GABRIELSON: Yes, the case was tried in federal court.

WORKS: Are you impugning his integrity?

GABRIELSON: Not in the slightest. I am just merely saying that there was no appeal. The only reason I am mentioning that, Mr. Works, is that the City of Long Beach has said they were going to the United States Supreme Court in the Mallon case, which I am involved in now; and I have often wondered why, in view of the values that were involved there, why it was a simple trial court proceeding and then a waiver of the appeal. I have discussed the matter with numerous attorneys, and we have often wondered about it.

GRANT: Mr. Gabrielson, I have an item here taken from the Long Beach Press-Telegram, March 21, 1948. This is in connection with the gentleman, Mr. Cherry, that you just mentioned a moment

ago. Now, are you familiar with the statement that he made about that time that "We were laughed out of the City Attorney's Office in 1940 when we were offered a settlement of \$50,000 and a 12½ per cent royalty". Cherry made that statement, that he was laughed out of the attorney's office at that time.

GABRIELSON: I know nothing about that, Mr. Grant.

GRANT: Well, he also made the statement he insists that he and his companies have all legal right to past, present, and future production of oil between Chestnut Avenue and Ford Avenue below the low tideland seaward, 3,380 feet, in all 1,280 acres. Were you familiar with his viewpoint in that connection?

GABRIELSON: Mr. Grant, that is such old history that I don't know anything about it. I have never seen that article, and suffice it is to say that to my knowledge the Cherry Company has done nothing for several years, anyway, at least to my knowledge. Now, I don't know what the 1948 proceedings . . .

GRANT: These are supposedly quotes made by him at that time and gave his impression of his standing in connection with the ownership of the land at that time and his clients' ownership. May I offer this as an exhibit?

GROVER: No. 131.

GABRIELSON: May I say, Mr. Grant, that if we - and directing my remarks to the chairman, I have quite a scrapbook of this material, and I think that if we going to make a point of public utterances by various people, I think we will find some very, very embarrassing utterances made by city officials of Long Beach. I have seven volumes of scrapbooks which I would be glad to reproduce a lot of that meterial if it is pertinent, but I don't

think it is. What Mr. Cherry may have said or not said isn't particularly relevant, in my opinion, any more than the fact that O'Melveny & Myers was opposing the City of Long Beach in 1939 on this item . . .

CHAIRMAN McFALL: Mr. Gabrielson, we have a lot of things in our exhibits. Some of them are relevant and some of them are not.

GABRIELSON: I know nothing about this public utterance, Mr. Chairman, of Mr. Cherry's.

CHAIRMAN McFALL: Do you have some more, Mr. Grant?

GRANT: No. That's all.

CHAIRMAN McFALL: Mr. Miller.

ASSEMBLYMAN ALLEN MILLER: Mr. Gabrielson, this action that you referred to, the action that started in the superior court and then was subsequently transferred to the federal court, it was commenced by the City of Long Beach?

GABRIELSON: Yes, it was, Mr. Miller.

MILLER: An adversary proceeding against the Union Pacific and other individual owners?

GABRIELSON: Yes.

MILLER: And did you say that was an action in the nature of declaratory relief or a quiet title action?

GABRIELSON: I think the title of the complaint said declaratory relief, accounting, and quiet title.

MILLER: And at issue in that action was the matter of title to these so-called submerged or overflowed lands upon the maps that you have indicated?

GABRIELSON: I believe that that was one of the . . .

MILLER: It was introduced in evidence?

GABRIELSON: I believe that was one of the issues, yes, Mr. Miller.

MILLER: And the ultimate decision, as you understand it, as granted in the trial court was a decision that the City of Long Beach had title to those as against those adversaries?

GABRIELSON: No. Did not have.

MILLER: Did not have.

GABRIELSON: Did not have title. That is right.

MILLER: What do you imply is the significance of that action outside of the waiver of appeal? There is some implication in your mind concerning that action in respect to this whole matter of title to these lands. What is your inference?

GABRIELSON: Well, I wasn't making any particular inference. I was just answering the question of Mr. Allen concerning the appeal on the situation. As I see the file and discuss this matter with other attorneys, we have often wondered, in view of the city's present stringent holding on to both the funds and the land, we are wondering why, as a trustee, the case was not carried on an appeal, because we felt that there was tremendous value involved and we felt that there were some tremendous issues involved, but as far as making any inference, I make no inferences. I merely tell you what the file shows, that's all.

MILLER: Has there been any other litigation in your knowledge that would try these same issues that were in this superior court case?

GABRIELSON: Not to my knowledge.

GROVER: One question, Mr. Chairman.

CHAIRMAN McFALL: Mr. Grover.

GROVER: In connection with the California Fish case and the Newcomb case, you referred to certain tidelands which you said were patented before 1911, and I believe you said they were subject to the same trust. Do you mean that they are subject to the statutory trust?

GABRIELSON: Subject to the trust for commerce, navigation, and fishing.

GROVER: Do you mean they are subject to the same trust as expressed in the Statute of 1911, or to the so-called constitutional trust, which is not necessarily the same as the statutory trust?

GABRIELSON: Mr. Grover, I believe my recollection of the California Fish case is that it is subject to the same trust as the 1911 type of trust. I believe that is what the court held in the California Fish case.

GROVER: Well, let me get it a little different way then. Do you believe that those lands are in the trust in the same sense that the lands granted in the 1911 statute are in the trust now being administered by the city and concerning which the Mallon case was filed?

GABRIELSON: I believe in the Newport Beach case in 1936 the court actually held that, Mr. Grover.

GROVER: In the Mallon case, is there any request for an accounting or other action - or other relief, I should say - is there a request for any relief in connection with those patented lands by you or any other party in the Mallon case?

GABRIELSON: No, Mr. Grover, there is nothing like that in my part of the proceedings. No, I don't believe the State has done

it, although I believe the State has left the door open, in case there were some illegal expenditures, to have a perusal of those expenditures. I believe it would come in in the accounting, Mr. Grover.

GROVER: Well, do the patentees have certain rights on those lands that are not held by similar patentees on, say, the land where the Harbor Department office is?

GABRIELSON: Well, of course, where the Harbor Department office is you would not have any patentees, Mr. Grover.

GROVER: Could the State patent that land?

GABRIELSON: Which land, now, do you mean?

GROVER: Any tidelands in the area, say, of the Harbor Department office. Could the State now patent them and give certain private persons private rights similar to those up in the Marina?

GABRIELSON: I doubt if they could because the patents that were made about the turn of the century, Mr. Grover, were made under the old Political Code provisions, and those provisions are not in effect now.

GROVER: Well, could the State, by statute, do it?

GABRIELSON: Well, conceivably they could, but who would want to take any of this land now as a patentee where all the appurtenances are being used for trust purposes? In other words, what would they be able to use it for, Mr. Grover? As a practical matter, it would seem to me that the question would never arise.

CHAIRMAN McFALL: Is that all? All right, thank you, Mr. Gabrielson.

ALLEN: Mr. Chairman?

CHAIRMAN McFALL: Yes, Mr. Allen.

ALLEN: In connection with Mr. Miller's question, I would like to point out that the 1911 Act, as amended, always has provided that " . . . ~~said city~~, or its successors, shall not, at any time, grant, convey, give or alien said lands, or any part thereof . . .". The city has no power to give up the title to any of that. In, I think, 159 of the California Court, there is a series of cases where the City of Los Angeles took the question of its title to similar properties up to the California Supreme Court, also against squatters which were in possession of it, and the California Supreme Court held that it was not possible to get the title by adverse possession, that the tidelands were held by the city as a trust.

Now, Mr. Gabrielson, just one other question. Are you a party to any of these stipulations that I understand are being made, or have been made, with the City of Long Beach on the impounded funds?

GABRIELSON: Mr. Allen, I have not been at a single meeting on any of those impounding conferences. Mr. Friedman of the Attorney General's Office called me once from Sacramento - this was several months ago - and sheepishly told me that they were going to have a conference, and I was indirectly advised that it might be better for me not to be there. I said, "Well, go ahead" on that one, and that is all I said. Subsequently, I understand, they have had numerous conferences, and I haven't even known about these conferences.

ALLEN: Well, at any rate, you haven't signed any stipulation?

GABRIELSON: No, I have never seen one. I found out in court in a conference with Judge Smith yesterday that there has been an impounding arrangement, but I haven't seen it. I know nothing about it, and, of course, as an attorney, I am wondering how it can be filed in the Mallon case without my signature on it in view of the fact that I am the only active plaintiff in the case.

ALLEN: That's all. We have Mr. Hortig and Mr. Friedman both here, Mr. Chairman.

CHAIRMAN McFALL: Mr. Hortig, will you come up, please?

(Witness sworn in by Chairman McFall).

Your name is Francis Hortig?

MR. FRANCIS HORTIG: That is correct.

CHAIRMAN McFALL: And where do you reside, Mr. Hortig?

HORTIG: Alhambra, California.

CHAIRMAN McFALL: And what is your position?

HORTIG: I am the Mineral Resources Engineer of the State Lands Division, Mr. Chairman. I am here today in response to a subpoena by your committee.

CHAIRMAN McFALL: All right. Mr. Allen, do you have some questions?

ALLEN: I think Mr. Grover has some questions, Mr. Chairman.

CHAIRMAN McFALL: Mr. Grover.

GROVER: Mr. Hortig, are you familiar with Exhibits 70 and 81 of this committee? Do you have copies of those?

HORTIG: I have reviewed copies of Exhibits 70 and 81, yes, sir.

GROVER: Directing your attention to Exhibit 70, which is entitled "Summary of City and State Tidelands Oil Operations",

it appears from the exhibit that the average state royalty on its tideland leases is approximately 26 per cent, whereas the royalty to the city under the L.B.O.D. contract is 55.96 per cent, and under the Richfield contract is 70.19 per cent. The obvious inference on the surface is that the State Lands Commission isn't doing as good a job as the City of Long Beach in collecting money from its contracts. I wonder if you have any opinion on that matter.

HORTIG: Yes, Mr. Grover, I have. I do not believe that an adequate comparison of two methods of providing for oil production as dissimilar as the State and the Long Beach methods are - I do not believe that an adequate comparison of those methods can be given in one simple figure as is here stated in the comparison of, as you have said, 26 per cent to 55.96 per cent. This comparison necessarily, because of simplification, must overlook, or at least fail to refer entirely, to conditions that are unique to each method of development, conditions that have no counterpart in both contracts, and therefore the comparison becomes extremely difficult when you don't have the same yardstick by which you are measuring the results, in addition to which there is a definite difference in the value of products, the productivity of the areas which have been included under these contracts, and, finally, in the overall summary, as, for example, I read it here, the report as to the results by the State of California cover the period 1921 to 1955. The L.B.O.D. contract, if I recall correctly, came in in approximately 1939; we, therefore, include in the state statistics a period of petroleum economics that is markedly different than the period, or the total results of the

period involved in the L.B.O.D. contract. Now, if the committee wishes, I would be glad to elaborate on the lack of comparabilities and, conversely, on what factors there are that may be comparable to give the committee a picture of the relationship of these operations.

In the first instance, I think we must recognize that the City of Long Beach was extremely fortunate in that the Long Beach tideland oil field, being a part of the Wilmington field, which is the State's largest oil field, by that very term should produce top results from any lease or contract-operating condition. Implicit in this comparison of California's operation, California's best tideland oil field is the Huntington Beach field. Keeping this in only very general terms, last year in 1954 the Wilmington oil field, both upland and tideland, produced approximately twice as much oil as the Huntington Beach field, both tideland and upland. This is to give the committee just some rough measure of the comparative values, and very rough it is, of the Wilmington oil field as a financial interest as against the Huntington Beach oil field.

Secondly, there is, of course, the large difference recognized, I am sure - at least in part - by the committee between the approaches, the specifications for operating, as between this L.B.O.D. operating contract referred to in Exhibit 70 and the requirements of a state oil and gas lease as specified by the Legislature and set out in state policy by the Legislature. The L.B.O.D. contract, in very general terms, means that the City of Long Beach is in the oil business. Conversely, the State of California, through the Legislature, has specified that state

lands shall be developed under an oil and gas lease, the bids shall be in the form of a lease, the terms and conditions - the general operating conditions - are all specified, and have been, by the Legislature in Division 6 of the Public Resources Code.

Taking as more comparable in the overall picture a more recent lease, approximately of 1943, issued pursuant to competitive public bidding in Huntington Beach, State Oil and Gas Lease PRC 91 specifically, that lease, in the intervening years, has averaged 36 per cent royalty to the State down through 1954. Compare that with the L.B.O.D. operating contract experience of 56 per cent; the comparison, if spread for oil in terms of oil royalty, isn't nearly as great as the overall figures first indicated. Additionally, note that the L.B.O.D. operating contract experience as given in Exhibit 70 indicates that this percentage received is a percentage of the gross revenue. The question immediately arises as to what the net revenue to the city has been, which would be a comparable return figure, that is comparable to the net return to the State when I mentioned we received an average of 36 per cent from a particular Huntington Beach contract.

I must assume, only from general familiarity with the L.B.O.D. contract, inasmuch as our division has had no reason to be familiar with the intimate operating details of that contract, that the term "gross revenue" indicates that there are other factors yet to be deducted in order to achieve a net revenue figure, the actual true return to the City of Long Beach. One that is probably of considerable magnitude and still remaining to be deducted would probably be the cost of drill sites furnished by the City of Long Beach to a drilling contractor under a contract of this type, the

cost of preparation of which might well have been a cost assessed against harbor improvement and development and not assessed against the percentage of gross revenues as reported here, but the comparable factor for which, in the case of a state lease, the State's lessee either has to furnish his own drill site at his cost or, conversely, if the State were to furnish them to the lessee, they would be of considerable cost to the State, which again would have to be deducted from the State's net return in order to get these two operations on the same basis. If we then, for cost of drill sites and whatever other operations that aren't included in these figures, were to deduct a reasonably amount to get to a net return to the City of Long Beach, the comparison between this L.B.O.D. contract and the one that has been in operation on a state lease during the same period wouldn't involve nearly as great a spread as first reading of these figures has indicated.

In addition, again without specific knowledge as to the rate of production from the royalty under the L.B.O.D. contract, it can still be reasonably stated that if the same state contract at Huntington Beach, Lease PRC 91, had been in effect for the same areas as involved in the L.B.O.D. contract, the royalty experience under the State's contract would probably have been equally as large, if not larger, than has been achieved under the L.B.O.D. operating contract.

If I may refer to some figures just on past history from that particular state contract, the highest royalty rate ever paid by any single well under the lease, which occurred in a period in 1944, was 63.47 per cent. During that same calendar year

of 1944, we had our highest annual average royalty rate, 53.85 per cent. Now, this type of problem in the accounting for things and is completely submerged in this overall statistic of 26 per cent experience by the State involving the period, as it does, from 1921 to 1955 - this includes the experience of the State of California from 1921 to 1929 when the Legislature had provided that state royalty should be five per cent. These, when they are added into an average, of course, give you a disappointingly small figure today; but if we separate these leases, get them on comparable bases, and consider those factors where they are directly comparable, you can't find much reason to choose between them as far as the actual return to either the State or the City of Long Beach is concerned.

I do want to emphasize that while the question has arisen before of why we did not actually, in state leases, operate under similar contracts similar to those of Long Beach, I can only point to the fact that specifications for how the division shall operate the lands are given in the Public Resources Code.

GROVER: Mr. Hortig, there was a reference here not long ago, I believe from Mr. Charles Jones, who was testifying to a recent contract in which he was asked if he was not paying over 100 per cent to the State. Would you like to elaborate on that contract a little bit at Rincon? I should say a lease rather than a contract.

HORTIG: I would assume that the particular lease that Mr. Jones had reference to was the one more recently issued, approximately one year ago now, to Richfield Oil Company for an area at the west end of the existing Rincon tideland oil and gas field in

the County of Ventura. This lease was awarded by the State Lands Commission to the high bidder, Richfield Oil Company, after having received competitive bids on a factor only of which bidder offered the highest royalty rate. The royalty schedule is a variable one depending upon rate of production; the higher the production in the future, the higher will be the royalty. But each bidder offered a percentage of the established royalty schedule, and the highest percentage received the bid. That schedule, when applied, will give royalties ranging from 30 per cent minimum, regardless of the production of the well, up to a maximum of 100 per cent when production in any given well reaches 124 barrels a day or above. In view of the fact that that is the only lease we have outstanding where there is a possibility of reaching 100 per cent, I assume this is the same lease to which Mr. Jones had reference.

Now, the Rincon tideland field, at the present time, does have a wide range of production in it. There are wells apparently on production, some of them 30 years old, making as little as one barrel a day; there are others that are making, apparently, as much as 143 barrels a day. A 143-barrel-a-day lease on production under the new Richfield lease will bring 100 per cent royalty to the State.

GROVER: And do I understand that Richfield, in addition, will pay for the cost of the operation?

HORTIG: That is correct.

GROVER: Or the lessee?

HORTIG: The royalty is the net return to the State of California under the lease contract.

GROVER: What is the average production at that field now?

HORTIG: Approximately 35 barrels a day.

GROVER: And you say that is a 30-year-old field?

HORTIG: Yes. Very probably 27 or 28 years is closer to correct as to the tideland portion.

GROVER: Was your experience with that lease, from your point of view, more satisfying than the leases immediately preceding it? I mean in terms of the return which the State promises or is likely to get.

HORTIG: Naturally, the possibility of collecting 100 per cent royalty probably represents the ultimate . . .

GROVER: Well, I don't know, somebody said it would go over 100 per cent, I think.

HORTIG: That, of course, was a matter of considerable concern, and at the time the bid was considered by the State Lands Commission, an attorney general's opinion was sought, and it was concluded that it was not required that more than 100 per cent be collected under the contract offered. I do want to point out, for example, however, in connection with your question as to whether this were a better prospective result than on some earlier leases, that again turning to the 1943 lease offer at Huntington Beach, which I chose as the one probably most nearly comparable to the period and conditions of the L.B.O.D. contract, that under that lease a sliding royalty scale was offered, and this was in 1943, on which production of up to 500 barrels a day would have paid royalties as high as 70 per cent. Unfortunately, as I said, our tidelands area just hasn't been as productive - our best one hasn't been as productive - as that portion which the City of Long Beach has been operating under.

GROVER: Well, do you have any explanation for the fact that you got such a high bid, percentagewise, in the Rincon case as opposed to lower bids in this earlier lease at Huntington Beach?

HORTIG: Yes, I do. Naturally, at the time we received the bids we had allegations ranging from the fact that the bidder didn't know what he was doing on down. The fact remains, however, that petroleum economic conditions in California are such and the situation of supply and demand is such - oil is becoming increasingly difficult to find in California - that any operator who prospectively is desirous of remaining in the oil business in California for the foreseeable future is just having to work that much harder in order to assure himself of supplies for future operations, and the situation is just now very, very competitive on any area where there is even a reasonable prospect of securing production.

GROVER: Have you recently had experience with offshore artificial islands in your state leases?

HORTIG: There is currently only one artificial island erected offshore in California for petroleum development. That island is located approximately a mile and a half offshore on State Lease PRC 186 in the Seal Beach field. The island was placed because development on the lease - exploratory development on the lease from slant drilled wells, slant drilled from the upland - indicated that the operation could better be carried on more economically and more effectively by being at a location farther out at sea than the upland locations permitted. A filled land island was constructed, wells are currently being drilled from that island, and there are approximately twelve wells on production on that

island at the present time.

GROVER: Has the introduction of that technique in the state leases increased your competitive situation? Do you get better bids now with islands than you might have otherwise?

HORTIG: Mr. Grover, this is a two-pronged question on which I had better elaborate because we have been through transition, both as to having a greater scope for development by reason of having developed the island technique; at the same time we have had effective as of September 9, 1955, by reason of statutory amendments, an even broader scope made available to us in that it is now permitted within certain areas designated by the Legislature that any future development may take place not only from island but also from piers, barges, platforms, fixed or floating, and as has already been alleged, even a helicopter if you can demonstrate how to make it work.

GROVER: Well, do you think that this will have an effect on the amount of royalty that is likely to be bid for a state lease?

HORTIG: It will certainly enhance competition because historically, between the period 1938 and 1955, during which time the State Lands Commission could offer leases only under those circumstance where it was necessary to protect the State's lands from drainage, and particularly up to 1947 at which first time the legal and engineering feasibility of offshore islands was demonstrated, all prior lease issues and all developments were conducted from slant-drilled wells slant drilled from upland drill sites. This narrowed the field of competition in bidding, undoubtedly, because if a particular operator had had the foresight, and apparently some of them did for as much as 20 years back, to

acquire considerable area on the upland strategically located for future tideland development and the area adjoining, such operator with upland holdings was obviously placed in a favorable position to give a bid to acquire the tidelands, and in some cases conceivably could have made it impossible for anyone else to be in a competitive position.

GROVER: Well, now, in your opinion, was that one of the factors that led to higher bidding at Rincon, for example?

HORTIG: I don't believe that we can distinguish as to the relative importance of the factors that went into the higher bidding at Rincon, but the case of supply of petroleum certainly was one, and we can certainly feel reasonably certain that the availability of islands for offshore location contributed inasmuch as this was the first time that we received a number of bids from widely diversified sources. As I recall now, generally we received upwards of nine bids in that particular offer, and we had never theretofore received more than three bids at any one offer.

GROVER: How does the Cunningham-Shell Act of 1955 provide for state leases so far as royalty is concerned? What discretion does it leave with the Commission?

HORTIG: Under the Cunningham-Shell Act of 1955, which has now been incorporated as amendments to our Division 6 of the Public Resources Code, there is discretion in the State Lands Commission on establishing royalty rates only in the case of offering lands for lease which are already within the known geologic structure of a producing oil or gas field. In the larger potential area to be offered for lease provided in the legislation popularly referred to as the "wildcat area", the royalties are specified by

statute to be fixed at $12\frac{1}{2}$ per cent of the value of the production, with a lease to be awarded to the bidder offering the highest cash bonus. In the case of lands within the known geologic structure, as I said, the statute provides that the lease shall still be awarded to the highest cash bonus offered, but the royalty shall be not less than 16 and two-thirds per cent, or at the option of the State Lands Commission it may be a sliding royalty schedule specified in advance to start at not less than 16 and two-thirds per cent.

GROVER: Have you any experience with that type of lease?

HORTIG: Directly we have not had as yet. No leases have been offered pursuant to the latest statutory amendments. However, the last three lease offers by the State Lands Commission which culminated in leases in August, 1955, which were offers of areas being drained at the east end of Huntington Beach, the royalty provisions and the bidding basis then adopted and utilized by the State Lands Commission are virtually identical with the statutory provisions now in effect for proven lands under the Cunningham-Shell Tidelands Act. Those three offers were made on the basis that there was a specified royalty schedule which would apply, depending upon production, ranging from a minimum royalty 16 and two-thirds per cent to a maximum of 60 per cent royalty which would be effective at an average production of about 450 barrels per day. The leases were awarded to the bidders offering the highest cash bonus to the State. The most favorable lease which was awarded for the most favorable area produced a cash bonus of \$3,333,0000, approximately, which represented a prepayment of \$2,400 per acre, approximately, for each acre of land offered. In

terms of cash bonus, this is probably the record in that the only place where comparable figures can be developed would be the Texas and Louisiana offshore areas, where the highest cash bonus offered to date is of the order of \$2,200 per acre with an accompanying fixed royalty of only 16 and two-thirds per cent.

MILLER: May I interrupt there? What was the sliding scale on that lease, or it was a minimum 16 and two-thirds lease . . .

HORTIG: The last lease I referred to, sir?

MILLER: Yes.

HORTIG: No. It is a sliding scale from sixteen and two-thirds per cent minimum, which would be effective up to 60 barrels per day, and then increasing with production up to 60 per cent maximum at 450 barrels per day.

MILLER: Do you have more than one competitive bid at that sliding scale?

HORTIG: Yes, sir. I don't recall the exact distribution, but out of three lease offers, we had 13 bids.

MILLER: And you awarded it - the sliding scales were comparable, and you awarded it . . .

HORTIG: The sliding scales were fixed. It was the same specified sliding scale for any operator, and the bid was awarded on a basis of the highest cash bonus, sir.

MILLER: When you submitted this for bids, you specified the sliding scale that all bids would be based upon.

HORTIG: That is correct.

MILLER: And what consideration went in the Land Commission's decision to set it at this fixed sliding scale? What factors went into that?

HORTIG: The past experience that the Lands Commission had had on royalty returns on other operating leases in the area, supplemented by a review of the board of consultants, including a consultant in economics, to determine as nearly as could be the rate which would both still yield the incentive to the bidder and provide for the maximum distribution, possibly, to the State of ultimate income. Obviously, the royalty and the bonus are inter-related in that the royalty schedule could be set so high that no bidder could afford any substantial bonus or, conversely, could go the other way and be set at a minimum royalty fixed and take all the income currently in the form of cash bonuses.

MILLER: This lease was under the new Shell-Cunningham . . .

HORTIG: No, sir. These leases were culminated before the effective date of the Shell-Cunningham Act.

MILLER: Is there any change in the Shell Act that is applicable to this particular property that was leased in Huntington Beach that would change your bidding practices or your offers?

HORTIG: They would not have in this instance, sir. Just one thing, and that is that the Shell-Cunningham Act providing, as it does, for additional methods for development, might have resulted in some consideration being shown in the bonus bid to permit development. That question was resolved on the basis that the lands in case were being drained, operations should be under way to protect the lands from drainage, and the Shell-Cunningham Act provides that even on areas that are within known geologic structure of a producing oil or gas field, there may be a period - the maximum is up to three years - before the operator must commence operation.

CHAIRMAN McFALL: Let me ask a question, will you, Mr. Grover? Mr. Hortig, if the Wilmington field that the Long Beach Oil Development Company operates now were operated under the state law that guides the State Lands Commission, or were operated by the State Lands Commission, would the State be able to net as much from those contracts as the contracts that the Long Beach people now have?

HORTIG: Mr. McFall, this, of course, will require a considerable series of assumptions.

CHAIRMAN McFALL: Well, let me preface that question with a statement I read in a magazine, an article by one Hale Champion, stating that one of the issues, possibly, involved in this investigation was that if the operation of this oil field went back to the State, private oil companies would benefit because after these leases ran out they would be able to get more favorable leases with the State than they would with Long Beach, and since your testimony here is concerned with the operation of state lands presently under the State Lands Commission, I would like to know whether or not there is any truth to that particular statement, and any other statement you might desire to make in that regard.

HORTIG: Well, I don't believe that Mr. Champion's analysis was factual.

CHAIRMAN McFALL: Well, of course, that is what I am interested in.

HORTIG: For, first, the reasons as I stated previously, when we compare the Long Beach type of development with what would have been the result under an equivalent state lease in terms of return to either the State or to Long Beach, there isn't much to

choose from economically. The number of dollars received for the amount of oil, either by the City of Long Beach or by the State of California, for equal values of property - any of that, taking Mr. Champion's thesis of a state re-offer of the particular lands in the future - I think it has already been demonstrated that the royalties that are going to be paid are going to be set by competitive public bidding, and on the basis of the schedule as offered by Richfield Oil on this Rincon lease, if applicable to the production rates, this property as it is operated at Long Beach, you would come up with the ultimate in a lease that pays nothing but 100 per cent royalty. This, I think, compares pretty favorably even with the 95 per cent under the other Richfield contract, as referred to, by only 70 per cent gross revenue, Richfield Operating Contract, Parcel A.

CHAIRMAN McFALL: Then under the present law, it is your opinion, briefly, that the State could get at least as much, if not more, than the L.B.O.D. contract?

HORTIG: I think we can say this, that any given time, offering the same piece of property under the two types of contracts, the results should be substantially the same because it must be clear that any operator with the same incentive in each case, viewing the problem and knowing how much money he can pay for the contract, is going to sit down and is going to divide his funds, and it is going to be so much for the lessee and so much for me. Whether he has to translate that into percentages received under an operating contract or, conversely, the percentage is to be paid to the State, his economics department is going to hand him approximately the same answer with this exception, which the

State can take advantage of under the present law - if it is an advantage - with the Long Beach type of operating contract, with at least a portion, if not all, of the lease expenses expenses being financed by the city, if capital investment is of concern to an organization, a smaller operator might very well want to bid more for an operating contract than he would for a lease. He has less risk under such an operating contract, and he gets paid for his services and might not have to put a cent of his own money into the operation.

CHAIRMAN McFALL: Well, is that type of contract now in existence?

HORTIG: The City of Long Beach contracts are essentially that.

CHAIRMAN McFALL: Operating contracts.

HORTIG: Yes, sir.

CHAIRMAN McFALL: Thank you. Go ahead, Mr. Grover. I am sorry I interrupted you.

GROVER: To summarize some of your state experience here, is it fair to say that from 1921 to, I believe you said, 1929, there was a fixed statutory royalty of five per cent. Is that right?

HORTIG: I would like to amplify that a little. It just doesn't go far enough. From 1921 to 1929, leases could be issued that carried a five per cent royalty, and some of those leases ran as long as until 1949, so that included in their overall royalty statistics as late as '49 there are five per cent royalty leases.

GROVER: I see, but none of those has been issued since 1929?

HORTIG: No, sir.

GROVER: And then from 1929 until 1938, what was the procedure?

HORTIG: Basically, no new leases could be issued. In 1929 Chapter 303 of the 1921 State Mineral Leasing Act was amended to prohibit further issuance of tideland leases, and this condition remained, in general, until June 11, 1938, which was the effective date of Chapter 5 of the Statutes of 1938, which provided for the first time for leasing on competitive public bidding.

GROVER: And the State Lands Commission, under that 1938 Statute, had discretion with regard to the method of competitive public bidding and, as a matter of policy, called for competition in the percentage rate of return to the State. Is that correct?

HORTIG: That is correct up to August, 1955, when in the the last three leases I mentioned the rate was specified rather than inserted as the biddable element, and the bids were taken on the bonus. Those are the three exceptions.

GROVER: So that in those August leases, even though they were under the older 1938 statute where the discretion was in the Commission, still they followed the pattern set down by the already enacted but not yet effective Cunningham-Shell Act of transferring the competition to bonus bidding.

HORTIG: That is correct.

GROVER: Now, in the future you will still have competition, but it will be in the form of size of bonus to be paid . . .

HORTIG: It is required by the Public Resources Code now.

GROVER: Has it ever been possible for the State Lands Commission to issue an operating type or cost-plus type - I shouldn't use those words. They perhaps may not be too accurate. Has it

ever been possible for the State Lands Commission legally to enter into an arrangement with oil operators such as that between the City of Long Beach and the Long Beach Oil Development Company and Richfield Oil Corporation?

HORTIG: We do not believe so in the light of Section 6835, Public Resources Code, which requires that a bid for an oil and gas lease - a bid shall be in the form of an oil and gas lease; and then the code proceeds to recite, " . . . and the lease shall contain in addition to other conditions the following: . . . " and sets out all the framework for what is generally an oil and gas lease and is not at all adaptable to procedures of an operating contract, and such lease under 6827 of the Public Resources Code shall be awarded to the highest bidder. In addition, in an earlier review, particularly as of the time that the City of Long Beach adopted its initial operating contract, in reviewing the advantages or disadvantages as to whether or not they could be recommended for state procedure, it was pointed out to the Division of State Lands, informally, by the Office of the Attorney General that there was a serious question - and this I am relaying; I don't wish to offer a legal opinion - that there was a serious question, in view of the constitutional prohibition against lending state credit, as to whether the State could be in the business as far as it would have to be in order to administer an operating contract.

GROVER: But in your opinion, so far as the return which might be received from one or the other types, you think that one could be tailored to get substantially the same type of competitive response from the industry as another?

HORTIG: That is correct.

CHAIRMAN McFALL: Any further questions? Mr. Grant?

GRANT: Mr. Hortig, in case the State was handling the leasing of tidelands in the Long Beach area at the time these leases were first issued to L.B.O.D. - I believe you mentioned 55 per cent - would you likely, at that time, have followed that same procedure? In other words, would you likely call for the same percentage of royalties that Long Beach did? At that time, I mean. Several years back.

HORTIG: Well, that is a point I tried to bring out, Mr. Grant, that while the percentages have been set by competitive bidding and haven't been specified as minimum, that lease offers of the same period and the Huntington Beach Lease PRC 91 I referred to, resulted in a royalty schedule on bids that would have yielded up to 70 per cent royalty on 500 barrels a day.

GRANT: Were they prior to the L.B.O.D. contract?

HORTIG: No. That particular lease was awarded in 1943, which is a little later, but still goes back in essentially the same market period and, in general, the same area of values of oil. This is one of the other difficulties in making a direct comparison, and I have included in these figures . . .

GRANT: Yes, I fully realize that.

HORTIG: . . . of the city, the oil price has a tremendous influence ultimately.

GRANT: The L.B.O.D. contract, is one of the first of its kind, was it not?

HORTIG: Yes, sir.

GRANT: In other words, it led the way for others to follow,

you might say, in contract and leasing, and so forth.

I think that's all.

ALLEN: Mr. Chairman?

CHAIRMAN McFALL: Mr. Allen.

ALLEN: Mr. Hortig, have you seen this so-called conservation bill that is going to be on the ballot next year, or this year?

HORTIG: We have received printed copies of it, sir. I haven't had an opportunity to read it.

ALLEN: Well, I have heard - I haven't seen it myself - but I would like to know whether it is true that under one section of this bill it would be possible for the operator to enter into an agreement limiting production without the consent of the State Lands Commission.

HORTIG: I would not know, sir, not having read the bill. I would like to point out that insofar as unitization, conservation, repressuring, et cetera, on state lands are concerned, there is complete authority in the Public Resources Code for the State Lands Commission to either direct or approve any such plan insofar as it involves state lands if, in the opinion of the Lands Commission, it is in the interest of the State.

ALLEN: Aside from that, this particular bill, I am told, gives the authority to the operator and not the Lands Commission to make an agreement limiting production, and in view of the fact the percentage royalty paid by the operator depends on the rate of production, I would be very interested to know whether that is true. I wonder if you could check that and give the committee a statement on it; perhaps you could send us a letter, or

something, on it.

HORTIG: We would be very glad to.

ALLEN: Could you do that?

HORTIG: Yes, sir.

ALLEN: Now under the type of operation the State is following, who takes the risk of a dry hole on a well?

HORTIG: The State's lessee entirely.

ALLEN: And in the operation at Long Beach, who takes the risk of a dry hole?

HORTIG: Well, as I read Exhibit 70 I assume this is part of the drilling and operating costs which are paid by the City to the contractor under the reimbursable portion of the contract. In other words, the cost of such a dry hole would decrease any amount of money the city is ultimately going to get.

ALLEN: And how about the risk of a well running out and becoming a pumper instead of a free flowing well? Who takes that risk on the State's lease?

HORTIG: Well, this isn't a risk, sir. This is almost a certainty. It just follows in the natural course of events, and this again is entirely the problem of the operator, and if his operating costs go up, they go up. Admittedly, at the same time, under such conditions, on a sliding royalty schedule his royalties come down.

GRANT: Doesn't the State's production go down similarly?

HORTIG: Surely. That's right.

ALLEN: Now, the Rincon Richfield bid that you mentioned was based on a multiplication factor times a sliding scale royalty, isn't that correct?

HORTIG: Yes, sir.

ALLEN: That's how it happened to come out at over 100 per cent.

HORTIG: That's right, sir.

ALLEN: At the present time, isn't it true that the State Lands Commission fixes the scale, then the competition between bidders is on a basis of how much bonus to pay over that?

HORTIG: That is now required by statute, yes, sir.

ALLEN: So that this sixteen and two-thirds, is it, per cent, that is a statutory minimum . . .

HORTIG: Not less than, yes, sir.

ALLEN: . . . under the present Shell-Cunningham bill doesn't mean that in calling for bids in any particular field the State Lands Commission is going to use that as a minimum.

HORTIG: Nor as a maximum, no, sir.

ALLEN: The State Lands Commission has authority to fix any scale in its discretion and call for bids.

HORTIG: That is correct, sir.

ALLEN: They can't go below that.

HORTIG: That's right.

ALLEN: So, if in leasing a sizeable oil field - I will withdraw that. Does the State Lands Commission have in operation any oil field at the present time of the policy of the Wilmington field?

HORTIG: No, sir.

ALLEN: That is in the depth to oil, the amount of oil available, the quality, and all that.

HORTIG: No, sir. As I stated earlier, fortunately for Long

Beach, the Wilmington oil field is the largest and one of the most productive in the State of California.

ALLEN: Now, sometime ago the city granted back to the State approximately eight hundred acres near the Seal Beach line. Could you tell us what the status of that is as far as the Lands Commission is concerned?

HORTIG: By quit claim deed in about 1932, the City of Long Beach conveyed to the State of California a portion of the tide and submerged lands previously granted to it by the State. The grant to the State is conditioned on only one thing, that the grant was for park purposes. After establishment of the potentiality of production under this area which adjoins the Seal Beach city limit, the easterly edge of the City of Long Beach - after establishment of the possibility of production in the area, both by considering an extension of the Wilmington oil field and by reason of discoveries on the state lease within the adjoining city limits of Seal Beach, discussions were had with the City of Long Beach as to the possibilities of developments in the area, the City of Long Beach contending that the area could not be developed by the State because the city had not granted the minerals to the State in the quit claim, and in any event that if the reservation for park purposes were violated by attempting to develop oil from the property, the property would revert to the City of Long Beach. This made the entire thing a legal question just at the time that action was brought by the United States in the case U.S. v. California, and the Supreme Court ruled that no one had any right, title and interest in the area anyway, so the entire matter was held in abeyance until the passage of the Quit Claim Act, the

Federal Quit Claim Act of tide and submerged lands back to the states, and the question is again under consideration by the Lands Commission and by the Office of the Attorney General as to what procedure should be adopted to clarify the title status and determine who should proceed with the development of the area in the near future, which development in the near future is indicated by a continuing development on the adjoining lands and a state lease in Seal Beach.

ALLEN: Now, you haven't made any oil lease on that property?

HORTIG: No, sir.

ALLEN: You are still waiting for clarification of this legal question you mentioned.

HORTIG: Yes, sir. Approximately two months ago the initial steps again to consider an oil and gas lease under the provisions of the Shell-Cunningham Act were reviewed by the State Lands Commission, at which time the City of Long Beach was represented. Mr. Lamb was present at that meeting and re-presented the contrary views of the City of Long Beach, which resulted in the reference of the entire matter by the Lands Commission to the Office of the Attorney General.

ALLEN: Do you know whether the Wilmington oil field extends down to that property?

HORTIG: Nor, sir. I wish I knew.

ALLEN: This is adjoining the property under lease to the Monterey Oil Company?

HORTIG: That is correct.

ALLEN: That's all.

CHAIRMAN McFALL: With reference to the conversation about

holes, and so on. Is there much of a dry hole in the Long Beach field?

HORTIG: Well, their experience has been, of course, remarkable. I don't know what the actual number of non-productive wells has been, but the probabilities are the majority of those have been for mechanical reasons rather than having missed it. As a matter of fact, it is generally accepted in industry, I think - at least it was a good catch phrase - that at the time the Richfield operating contract was awarded that Richfield had bid on a tank of oil in the ground.

CHAIRMAN McFALL: Any further questions from any members of the committee? All right, sir, thank you very much.

HORTIG: Mr. Chairman, might I ask whether I could be excused from attendance tomorrow?

CHAIRMAN McFALL: I think so. Are there going to be any questions of Mr. Hortig later on? You are excused then, Mr. Hortig. Thank you very much for coming.

Well, it is now five minutes to three. Perhaps we should have a short recess.

RECESS

CHAIRMAN McFALL: Mr. Friedman, I am going to swear you in.

(Witness sworn in by Chairman McFall)

Your name is Leonard Friedman?

MR. LEONARD FRIEDMAN: Leonard Friedman. I am a deputy in the Sacramento office of the State Attorney General. I don't know whether the committee sound recorder can tell the difference between a sheepish and an unsheepish statement, but I am going to try very hard not to sound sheepish. I have a prepared statement here

which I would like to read to the committee. I have additional copies which I will place in the attorney's hands now.

This committee has been holding hearings since last August to determine the extent of the State's future financial interest in Long Beach tideland oil and gas revenues. At the same time the Attorney General, acting in his own capacity as chief law officer of the State and also as attorney for the State Controller, has been conducting litigation designed to enforce the State's existing interest in those same revenues, as that interest is defined by the Supreme Court's decision in Mallon v. Long Beach.

It is fitting and perhaps helpful that we come before this committee to report on the Attorney General's conduct of this litigation and to answer any questions which members of the committee may desire to ask regarding this litigation. The Attorney General has not sent me before this committee to argue the merits or demerits of any proposal now pending before the committee. I am not here to support or oppose any proposal before this committee, but simply to tell what we have done thus far, what we propose to do in the future, and what ideas we have developed.

Shortly after the Mallon decision was announced last April, a controversy broke out in the Legislature revolving around Assembly 3762, the Allen bill. Although we were directly concerned with the effect of the Mallon decision, we did not believe it appropriate to participate in controversies over future legislation. We conceived it to be our duty to move within the framework of existing law, either as declared by the Supreme Court in the Mallon case or as declared by the Legislature in the future. By that time the representatives of Long Beach had told

us that they proposed to exhaust their judicial remedies, that we would have to sue them for the 50 per cent due us under the Mallon case. We could draw only one inference. If we had to sue them for the 50 per cent owing to the State under the Mallon decision, we would also have to sue them for the greater share called for by the Allen bill. What the percentage should be over and above the 50 per cent decreed by the Supreme Court was a legislative question. It was our task to effect the maximum possible recovery for the State of whatever percentage might be decreed by the law of California.

When the Mallon decision was handed down last April, it became clear that Long Beach had received and would continue to receive enormous sums of money as a resulting trustee for its beneficiary, the State. The duty of a resulting trustee is simply to pay the trust money over to the beneficiary. As attorney for the beneficiary, we had the responsibility of enforcing that duty. Following the April 5 decision of the Supreme Court, we filed an amicus curiae brief opposing the request of Long Beach for a rehearing. After the rehearing was denied and the Supreme Court returned the case to the Los Angeles Superior Court on May 5, we commenced the arduous, painstaking and time-consuming task of preparing our lawsuit.

From time to time charges have been made that the Attorney General has been dragging his heels in this litigation. For example, last month a national magazine carried an article on the Long Beach controversy. The writer of the article made an interesting juxtaposition of statements. He mentioned the number of voters in and around Long Beach, referred to Attorney General

Brown as "the State's No. 1 Democrat," and then stated: " . . . not even the hottest Long Beach partisan could accuse him of moving with dazzling speed in the matter."

Of course the people who make such statements have no responsibility in the matter. They are not concerned with auditing problems, or with the slow, careful task of locating trust funds, fixing their amount, and tying down the complicated legal theories which must guide us. I wonder how many lawyers on this committee - and indeed how many lawyers in the State - have ever been confronted with the responsibility of preparing and presenting a lawsuit which may eventually involve as much as a billion dollars. Unless your client's money is disappearing before your eyes, you just don't move with what the article writer called "dazzling speed." You move carefully and arduously. Dazzling speed is hardly the earmark of a well-handled lawsuit, especially when it involves huge sums of money, complicated accounting problems, and a thorough assimilation of legal doctrines.

Attorney General Brown has placed the conduct of the Long Beach litigation in the hands of his civil service staff. He has not limited our objectives in the lawsuit nor interfered with our timing. He has given us carte blanche to work out our own case, being careful only to keep him informed of our actions. My colleagues and I propose to continue the fulfillment of our official and professional responsibilities to our clients, the people of this State. We are career government lawyers, and we don't care how many votes are won or lost in Long Beach or anywhere else by our conduct of this litigation. When the race has been run, no one is going to care about speed records. The only

question will be what result was achieved?

At the outset we were confronted by the fact that we didn't know how much to sue for. There had been some vague talk of \$160,000,000, but it was only vague talk. We immediately entered into consultations with Long Beach officials in an attempt to determine the dollar value of the State's claim, to ascertain the location of the various amounts and the character of their investments. The Controller likewise sent auditors to Long Beach to conduct preliminary examinations of the city's tideland operations. The accounting records of a multi-million dollar oil and gas business, covering a span of sixteen years, are monumental, to say the least. The city had never kept books with reference to the effective date of the 1951 statute, September 22, 1951; nor had the city's accounting people laid out their books along the lines later to be indicated by the Mallon decision. It soon became apparent that we faced a staggering task of accounting and auditing. An independent audit by the State would require many months. As a result of discussions with Long Beach officials, it was decided that the City Auditor would formulate a preliminary accounting analysis which would be without prejudice to the ultimate contentions of either side. From the State's standpoint this analysis would be used for the purpose of fixing the purpose of fixing the tentative amount of the State's claimed recovery, the final figure to be worked out later in a court-supervised accounting proceeding.

At the same time we were concerned with our clients' security pending the litigation, which might take years. Two weeks after the Mallon decision, the State Controller and members of the

Attorney General's office met with the Long Beach officials. We informed them that the first necessity was to tie up, or impound, all money which, under the Mallon case, was held for the State. From our standpoint this was necessary as a security measure. From the city's standpoint, we felt, it was necessary in order to avoid liability for illegal expenditures of state money.

That was the commencement of protracted discussions and negotiations. There was never any question but that the Public Improvement Fund (now amounting to about \$86,000,000) should be held intact. Our primary concern was with a sum estimated at \$20,000,000 held outside the Public Improvement Fund. The difficulty was partly attributable to the fact that neither side was willing to accept all the views of the other, and partly to the fact that the precise amount and location of the \$20,000,000 could not be ascertained until the city's fiscal officers had completed their preliminary review of the tideland oil accounts.

With regard to the State's claim for dry gas revenue, it must be remembered that prior to the Mallon decision the city had followed the practice of spending its Gas Department profits for general municipal purposes. To the extent that these profits had been attributable to sales of tideland gas, they were subject to the State's claim. As regards gas profits prior to 1955, there was nothing to impound because the money was gone. In June last year we reached an agreement with the city whereby it would impound sixty per cent of its Gas Department profits retroactive to January 1, 1955. Although the Gas Department was using only forty per cent tideland gas, it was our view that the additional twenty per cent was necessary in order to build up a reserve to

serve as partial security for an ultimate money judgment.

Meanwhile we continued discussions and correspondence with the city relative to the amounts and locations of oil money to be impounded. By the end of September, the city had completed and delivered to us a preliminary financial statement based upon an analysis of tideland fund balances and income. Our own analysis of this statement indicated that there was still an unlocated amount in excess of \$6,000,000. We asked the city to get to work on that aspect of the matter. In early November they submitted a supplemental report covering the \$6,000,000. For the first time we had a tangible set of figures indicating the amounts and locations of all oil revenue which were at least tentatively subject to the State's claim.

We felt that the State's entry into the litigation should not await the accumulation of complete financial data. In August we commenced legal proceedings against Long Beach. This took the form of an intervention in the Mallon case as well as the filing of an independent lawsuit. Having received a complete, if tentative, breakdown on trust fund balances during September and October we then had further negotiations relative to impoundment of oil revenues. On the basis of these negotiations we outlined an impoundment proposal, which was rejected by the City Council on December 6. One week later, on December 13, we started proceedings for a preliminary injunction. At the same time we issued a public statement that the door was still open to an impoundment arrangement if the city was prepared to offer one which would genuinely protect the State's interests.

On December 20 the City Council reconsidered its position

and approved a proposal which, from a dollar and cents standpoint, would offer adequate security. After consulting with the State Controller, we decided that the city's proposal was acceptable in principle. We have now reached substantial agreement with the city on a stipulation. May I diverge at this point from the prepared statement, Mr. Chairman, and members of the committee. At the time this statement was prepared, we had agreed in principle with the city on an impoundment arrangement. However, the final administrative technical financial details had still to be worked out. Those were worked out, and yesterday the completed stipulation was signed by both parties, and copies of the stipulation were filed with the court in both the case of Mallon v. Long Beach and the case of People v. Long Beach. I have additional copies of the stipulation which I will be prepared to hand to the counsel for the committee.

Statements have been made before this committee that the Attorney General has been slow in moving to tie up these funds. The actual fact is that if we had moved precipitously for a preliminary injunction without first having laid the groundwork for the city's proposal, we would still be engaged in court battles which would not be decided for months to come. Furthermore, we could not predict with any certainty that the courts would have supported all our views as to the traceability of trust funds. I want to state very emphatically that we are farther ahead today than if we had acted in a bull-in-a-china shop fashion advocated by these critics.

It has been frequently said that the Mallon case "has never been heard on the merits." I disagree with that notion. The

basic facts of the Mallon case are legal facts, statutory facts. The Mallon decision flowed entirely from the statutory tideland grants and from the 1951 statute sometimes known as AB 3400. Following the Supreme Court's decision in the Mallon case, there remained only one real question to be determined at the trial court level - how many dollars does Long Beach owe the State? As regards the existence of the resulting trust in favor of the State, Long Beach has had its full day in court, subject only to whatever efforts it may eventually make to secure review by the federal Supreme Court. Because we believe that Long Beach had its day in the state courts and should not be permitted to reopen the argument as to the existence of the resulting trust, we intervened in the Mallon action, the Supreme Court's decision being the established law of that case. The city has moved to eject us from the Mallon action and to relegate us to the original lawsuit. The argument on this motion represents the next major hurdle in the litigation.

There has been some discussion as to whether, under existing law, the State's eventual recovery should be deposited in the General Fund or in the State Lands Act Fund. In the latter event, seventy per cent of the money would be earmarked for beaches and parks. We have attempted very strenuously to take no action which would tie our hands or the Legislature's hands as to the eventual disposition and use of these funds. We have tried to manage this matter so as to leave the ultimate determination up to the Legislature. We shall continue to do so.

A great deal has been said about subsidence. A question of major financial importance in the lawsuit will be the city's

contention that the cost of subsidence remedial work, running to many millions of dollars, is an operating cost of oil extraction, which must be charged against tideland oil income before, and not after, calculating the amount of revenue to be split between the city and the State. If this contention is successful, the State will have to bear half the cost of whatever Long Beach chooses to spend on subsidence. In order to evaluate this contention, we must have expert, impartial engineering advice. We must, if at all possible, know the answers to two questions: First, to what extent is subsidence caused by oil and gas extraction and to what extent by other phenomena? Secondly, how much subsidence is caused by the oil-drilling operations of the City of Long Beach and how much by the other 114 oil operators in the Wilmington field? We are consulting with the State Lands Commission in an effort to get some technical help on these engineering problems.

One final note: I am sure that most members of the Legislature, regardless of their sympathies, will want the State's side of this lawsuit to be adequately staffed. That staffing must consist of lawyers, auditors and consulting engineers. So far the Attorney General's Office has been able to devote to this case approximately three-fourths of the time of two attorneys. I believe that the legal staff on the city's side is vastly more extensive. As the lawsuit moves along, we shall need more staff. We are now preparing a third man for entry into the case. Under our present budget, we have had to split up the previous work load of these attorneys and distribute it to other members of the Attorney General's Office. The Controller's Office has undertaken

to supply the auditing services. So far no money has been made available to us for engineering consultants. I hope that the forthcoming budget session of the Legislature will be sympathetic to our needs and that the members of this committee, out of their intimate acquaintance with this problem, will assist us in making these needs clear.

GROVER: For the record, Mr. Chairman, that written statement is No. 132.

CHAIRMAN McFALL: All right, Mr. Grover.

FRIEDMAN: May I hand to the counsel for the committee copies of the stipulation - impoundment stipulation. This was the one filed in the case of People v. City of Long Beach; identical stipulations were filed in the Mallon case.

CHAIRMAN McFALL: That will be 133. Do you have any further statement, Mr. Friedman?

FRIEDMAN: No. I am prepared to answer any questions from the committee members.

MILLER: I have one.

CHAIRMAN McFALL: Mr. Miller.

MILLER: It was intimated this morning by Mr. Gabrielson that he hasn't been asked to sign any stipulation in the Mallon case. Did you come to the conclusion that this wasn't necessary, his being the intervenor in the case?

FRIEDMAN: This is a matter which involves the State's financial interest, the State's security, and it is our feeling that this impoundment arrangement is a matter entirely between the Attorney General's Office, representing the State, and the City of Long Beach on the other hand.

MILLER: That was the court's conclusion when you submitted it for approval?

FRIEDMAN: We did not submit it to the court for approval. We filed it. It has been approved by the City Council of Long Beach, and I regard it, and I think the Long Beach officials regard it, as a binding commitment on the part of the City of Long Beach to segregate and to hold intact the impounded funds.

MILLER: Do you expect to get an order of court pursuant to this stipulation?

FRIEDMAN: No, we do not, sir. May I make an additional statement in that regard, Mr. Miller? The stipulation provides that within thirty days from its date the city will submit to the State a complete inventory of all the impounded funds, consisting mostly of federal bonds which are set aside. We will have all the bond numbers, and we have auditors who are down in Long Beach constantly, and the city will further supply reports every three months on current investments - investments of new cash income. And, again, there will be a physical setting aside of bonds, and we will be supplied with means of identifying the bonds; so we have ample means of insuring that the funds will be held intact.

CHAIRMAN McFALL: Any other questions? Mr. Allen.

ALLEN: Have you served Mr. Gabrielson with a copy of this?

FRIEDMAN: No. I told Mr. Gabrielson yesterday when I saw him in court that I could have copies for him today.

ALLEN: That's all.

CHAIRMAN McFALL: Any other questions? All right, sir. Thank you, Mr. Friedman.

FRIEDMAN: Thank you. May the record show that I have

delivered the copy to Mr. Gabrielson as referred to by Mr. Allen?

ALLEN: Mr. Chairman?

CHAIRMAN McFALL: Yes, Mr. Allen.

ALLEN: In connection with the last statement at the end of the prepared statement of Mr. Friedman, I would like to call the attention of the committee to the record, and not in the way of any criticism of the city, but that there are seven attorneys sitting at the counsel table of the City of Long Beach, and I believe they have been there throughout these proceedings. I call that to the committee's attention.

CHAIRMAN McFALL: In other words, you are commenting that the city is wise in hiring good lawyers and the Attorney General's Office should have more lawyers. Is that right?

GRANT: How many attorneys did you say they have there? Are you sure you counted them right?

ALLEN: Well, I counted them a few minutes ago. I could count them again.

CHAIRMAN McFALL: Is that the way you have been staying awake, counting lawyers out in front?

ALLEN: Mr. Chairman, I have with me, to file with the committee as the next exhibit, photostatic, certified copies from the office of the Clerk of the U. S. District Court, Southern District of California, in a case entitled City of Long Beach v. Union Pacific Railroad Company. There are three documents. The first one is a complaint for declaratory relief, accounting and to quiet title filed in the Superior Court of the State of California, in and for the County of Los Angeles, Case No. LBC 9032. I don't have the complete file, but I understand the case was trans-

ferred shortly thereafter to the Federal District Court. I also have - let's see, I don't have the filing date on that complaint, but it was verified March 10, 1939, and involves the quiet title action to that inner harbor property that was discussed earlier today, and I have a statement . . .

CHAIRMAN McFALL: Let's number them one at a time. The complaint is 134.

ALLEN: The statement is dated the 26th day of July, 1940. It doesn't have any title on it. It was filed in Case No. 340 RJ Civil in United States District Court. It is a recital of proceedings in open court and included in it is this statement: "Attorney Swafield makes a statement to the court and presents for filing a waiver of appeal".

CHAIRMAN McFALL: All right, that is No. 135.

ALLEN: The third document, clipped to that, titled in the District Court of the United States in and for the Southern District of California, Central Division, the same parties, the same case number. This is a waiver of appeal, which is a stipulation, and also O'Melveny and Myers appear as attorneys for Union Pacific Railroad Company and Los Angeles and Salt Lake Railroad Company, Southern California Edison Company, Ltd.

CHAIRMAN McFALL: All right, then, the first one called 135 will be redesignated as 135a, and this one will be 135b.

ALLEN: Mr. Chairman, I see Mr. Shoemaker out in the audience. I wonder if he would come forward, please.

CHAIRMAN McFALL: All right, sir, I am sure Mr. Shoemaker has no objections. Come up, Mr. Shoemaker. Did you have a question you would like to ask Mr. Shoemaker, Mr. Allen?

ALLEN: Mr. Shoemaker, I will show you a document that appears to be a letter addressed to Hon. Clyde Doyle, Congressman, dated June 10, 1949, and I will ask you if that is your signature at the end of it.

MR. R. R. SHOEMAKER: I think it would be my signature, Mr. Allen. It was done with a stylus pencil, and it doesn't look much like it, but I am quite sure that was the intention.

ALLEN: Now, you notice attached to the letter are two other documents, a statement of water flooding operations as a means of arresting subsidence and increasing oil recovery in the Wilmington field, the statement prepared by R. C. Kealer at the end of it; and then another statement, a list of expert personnel working on subsidence for local interests. Were those two statements attached to your original letter?

SHOEMAKER: I wouldn't recall offhand, Mr. Allen; whether the statements were attached to the letter at the time; however, I am very sure that the statements were provided to Congressman Doyle by the Harbor Department.

ALLEN: Thank you. I would like to offer that as the next exhibit, this document just referred to.

CHAIRMAN McFALL: Number 136.

ALLEN: That is the letter with the two statements attached, Mr. Chairman.

I have copies of this that have been typed up. I would distribute them to the committee. It is a rather lengthy letter, but I would like to read it into the record.

June 10, 1949

The Honorable Clyde Doyle, Congressman
18th District, California
145 House Office Building
Washington, D, C.

Dear Congressman Doyle:

Subject: Harbor Area Subsidence Problem -
Long Beach, California

The group of Long Beach citizens with whom you met and conferred on June 3rd last, at the offices of the Long Beach Board of Harbor Commissioners, was most appreciative of the thorough and clear manner in which you explained the problem of the Armed Services Committee of the House and of the United States Navy in relation both to appropriations for remedial work at the Long Beach Naval Shipyard and to de-employment at the Base.

The group was also appreciative of the opportunity to present to you a hastily prepared outline of the efforts and studies made locally to meet the subsidence problem. Your suggestion that the viewpoints and recital of activities of the local interests be placed in report form and forwarded to you promptly is being undertaken herein so that you may use it as you see fit.

The principal points applicable to the discussion of subsidence, as it relates to the problem currently being posed so strongly as to what can be done about the matter, and to the appropriation problem of the Navy, are summarized briefly below and discussed further in the body of this report.

1. There has been a pronounced enlargement by the Navy and other circles upon the value and possibilities of pressure maintenance operations in the Wilmington Oil Field, as they might relate to subsidence, which goes far beyond the limited statements of the Navy's special petroleum consultants, Keplinger and Wanenmacher.

2. There is much too great reliance by the Navy upon this theory of correction of subsidence, which is neither specifically recommended by its own petroleum consultants as certainly successful, nor conceived in full knowledge or consideration of the facts relating to the oil fields.

3. This enlargement upon the possibilities of pressure maintenance has gone so far that Navy personnel and you yourself are being quoted - possibly in error - to the effect that pressure maintenance has been successfully used to combat subsidence elsewhere. The facts are that local

investigators have found no evidence or literature that this has ever been the case, and would appreciate any such knowledge if it is available.

4. The criticism of Long Beach and of the oil operators of the Wilmington Field for failure to act in either disagreeing with the Harris report or in promptly implementing its findings is unsoundly based for the following reasons:

- (a) The Harris report has only been available to a limited few people locally and for the very short period of three months. Since the Harris report represents only a small portion of all the technical studies and findings of various investigators, almost daily becoming available, the report has not yet been thoroughly analyzed even by the investigators best qualified to study it.
- (b) The Harris report has apparently not even been made available to the private oil operators in the Wilmington Field.
- (c) The local interests have at no time been formally requested by the Navy to act upon the Harris report or to undertake any specific program of remedy.
- (d) There are many other analyses of factual data regarding the subsiding area being worked upon daily, analyzed and reported upon by consultants and employees of local interests, that take precedence in value, importance, and the attention of local interests, to the findings of the Harris report which were based upon hurriedly gathered data now mostly nearly a year old and assembled in New York.
- (e) It has never been the policy of the mutual investigators to look for areas of disagreement, but rather areas of agreement on the entire problem.

5. The City of Long Beach includes only a segment of the subsiding area. Much of the oil field and of the subsiding area is in Los Angeles, but there is found no reference to Los Angeles "doing something" about subsidence. The area of the oil field within Long Beach is only about 50% of the total.

6. The local interests in every case have more at stake, in costs of remedial work and relationship of those costs to the valuation of their investments, than has the Navy, and for that reason have more true

anxiety over the effects of subsidence than has the Navy or the Federal Government.

7. The City of Long Beach has been the only agency continuously studying the problem. The investigation of others, including the Navy, have been sporadic.

8. Local petroleum engineers are of the opinion that even if pressure maintenance could be counted upon to do some good and was practicable or economical, that the Harris estimate of cost and time is woefully inadequate.

9. Even if it could be assured that pressure maintenance would be successful in arresting subsidence, the time element necessary to install would be such that by reference to the prediction curves of either Harris or Grant, essentially all of the surface remedial work would have to be done before pressure maintenance could possibly become effective.

10. Contrary to opinions expressed in Navy circles that there has been no action by local interests, these interests, including property owners, individual operators and the City have extensively studied the field, the sands and cores prior to and during the past year and find increasing evidence that pressure maintenance would now be impracticable as it relates to subsidence. Attachments will explain this further.

11. The City of Long Beach alone has expended upward of \$50,000 in the past year on coring, core analyses and laboratory work pertaining to the sediments in the area.

12. Misleading statements are being made to the public that subsidence slowed down in response to reduction in oil production due to the oil strike of the autumn of 1948. There is no evidence of such action. The misinformation is presumably being used to back the implied request, which has not actually been made yet to the operators of the field, for a 30 per cent reduction in volume of field production.

13. The City has through a variety of causes reduced production 25 per cent from all of its Terminal Island wells over a six-month period ending in April 1949, with no change in rate of surface subsidence in the area involved. No change, in our opinion, should be expected in this period of time.

14. It must be remembered also that many well qualified experts are yet of the opinion that the production of oil and gas is not the cause of subsidence.

15. Finally, and what is believed to be most important to you, to the Navy, to those responsible for Navy appropriations, and to the employees at the Naval Shipyard who are being told their jobs are in jeopardy because of inaction by the City of Long Beach, there are many misleading statements, some of which had apparently reached your ears in Washington, because in our conference they were repeated by you.

- (a) For example, the Navy apparently rationalizes its failure for not having asking for an appropriation for fiscal 1950 at the proper time upon the basis of not having the advice of the Harris report in adequate time, and consequently not having knowledge of the need for the funds in time. Actually, the conditions as of fiscal 1950 at the Shipyard have been predictable for at least two years, and the predictions have been available to the Navy.
- (b) The Budocks report, the Harris report and Long Beach City reports show that a judicious and timely appropriation and expenditure of the funds asked for by the Navy will keep the Navy Yard in full operation. If this is true, and it is the statement appearing in the Budocks report, subsidence is being used as an excuse by Naval authorities for their action in reducing personnel at the Yard instead of the true reasons, or advantage is being taken of the subsidence question at the expense of employed Navy personnel, in order to seek accomplishment of some other Federal objective, foreign to the immediate problem of the degree at which the Long Beach Naval Shipyard will operate.

DISCUSSION SUPPORTING ABOVE CONCLUSIONS

You brought out the point in your discussion that the most recent report of Frederic R. Harris to the Navy had been out since February 1949 and that it was the expressed viewpoint of Navy personnel that ample time had been allowed for disagreement with the findings of the report, and that since there had been no report filed with the Navy by local interests controverting the Harris report, it must be assumed that there must be no disagreement with the report.

It may be said first, in response to this point, that the

efforts of the technical groups working on the subsidence problem have not been directed specifically toward disagreement and open attack of the various reports prepared. There is disagreement within individual reports and there is much disagreement among different analysts. The basic objective of the technical groups has been a seeking for areas of agreement. Although there have been a few fundamental disagreements as to the mechanics of the subsidence process, most notable being the basic disagreement between Grant, Gilluly and Johnson, consultants for the City, and Harris, consultant for the Navy, all such disagreements are aimed in the direction of seeking a more exact answer. The disagreement as to the mechanics also extends to the prediction of total subsidence.

Secondly, it appears that for the most part the oil companies have not been supplied with copies of the Harris report or the 1949 Budocks report, so that they are hardly in a position to discuss them or disagree with them.

Thirdly, the program of production curtailment and program of pressure maintenance, which you stated were being urged so strongly by Navy personnel, have neither been formally requested of local interests by the Navy, nor have they been considered to have merit by those local interests who have had access to the Harris report and to the Budocks report.

It is pointed out also that the portion of the Harris report which was written by petroleum engineers, who might be qualified to conclude what applicability pressure maintenance could have to the subsidence problem, does not provide adequate basis for anyone to urge, much less proceed with, a step of such consequence.

The value of pressure maintenance in affecting subsidence is much like the proverbial oft retold story. The story has gained something with each retelling and now that it has reached the Shipyard employees' ears it is vastly different than when first told.

First attention is directed to that portion of the Harris report to the Navy which was prepared by Keplinger and Wanenmacher, petroleum engineers of Tulsa, Oklahoma, whose ability is not questioned, but who have very little knowledge of the problems in the Wilmington Field as compared with the knowledge of the vast staff of petroleum engineers representing the many operators and owners in the field. It is interesting to note just exactly what and how little Keplinger and Wanenmacher have said in the Harris report as to the actual possibilities of pressure maintenance affecting subsidence at Wilmington. Following are the quotations directly applicable to this possibility taken from their portion of the report, with underlining ours.

On page 123 they state, "If pressure maintenance with gas repressuring proved to be economical and the greater part of the subsidence which is occurring is due to the reduction of pressures within the oil reservoirs, a successful gas pressure maintenance program could be expected to influence future subsidence." They then point out that gas repressuring is impracticable.

Later they state, "In addition to the large increase in ultimate recovery, due to supplementing reservoir energy by water repressuring, there would be the additional advantage that reservoir pressures would be maintained at present values or increased."

Later, appears the following: "The above increases in ultimate oil recovery and resultant maintenance of reservoir pressures are dependent upon establishing a successful secondary recovery program."

"The advantage of an early conclusion of a unitization agreement is that water repressuring could be inaugurated which would arrest or stop reservoir pressure decline. This would influence the future subsidence of the field and at the same time increase the recoverable oil reserves from the field".

"The reduction of oil production rate would probably slow down the subsidence rate but it would not necessarily reduce the ultimate subsidence."

The above quotations are the strongest statements appearing in the report under the authorship of the Navy petroleum consultants pertaining to the stopping of subsidence by repressuring. Local interests also have thought of water repressuring.

The strongest statements of local petroleum engineers most familiar with the conditions in the field are quoted below from the June 25, 1948 Progress Report of the Technical Committee on Subsidence in the Harbor District. In general their views are much less optimistic today after further study.

"The use of water (for pressure maintenance) is more practicable (than gas) and might result in actually checking subsidence. There are, however, the following detracting factors:

- "(1) About two and one-half years of experimental work and one year of construction work would be required before a full scale pressure maintenance effort could be prudently accomplished, and then probably in only a portion of the reservoirs.
- "(2) The cost would aggregate not less than \$5,000,000 for the one block studied. (Note that there are several fault blocks in the field.)
- "(3) The amount of check to subsidence to result from such an effort cannot be predicted from any data or experience now available."

From these doubtful observations by the people who have some knowledge of the conditions, the Harris report in its two-page

synopsis grows somewhat positive and in the second paragraph of page 7 of the report states, "These operations (referring to pressure maintenance) would also greatly reduce, or even halt, the progress of subsidence." In the fourth paragraph of page 7 it states, "Subsidence at the Naval Base can be influenced somewhat by reducing the oil production rate." ". . . general curtailing of production throughout the major part of the oil field would decrease the rate of subsidence, gain time for the erection of these works (referring to protective work) and would probably reduce the ultimate settlement to a significant degree."

Thus the Harris report in its synopsis becomes much more positive about the results than petroleum engineers Keplinger and Wanenmacher.

It is in the next and later retellings that the pressure maintenance aspects are much more positively stated, but without further accompanying evidence. In the Budocks report of February 1949, upon which the Navy and your committee are probably relying, the following statement appears among the conclusions. On page 2, "In the Wilmington Oil Field, subsidence could be greatly reduced and possibly entirely stopped by means of water repressuring of the oil zones to maintain reservoir pressures."

The report then specifically suggests Navy, Interior and Justice Department cooperation for compulsory unitization "to prevent . . . unnecessary damage to property by subsidence . . .".

LOCAL INTEREST AND STUDY

From statements recently prevalent, the impression would be gained that local interests are completely unconcerned about the subsidence and that only the Federal Government is sufficiently interested to be either concerned or to assure action.

The more important history of local subsidence at the Navy Base dates back to October 1940 when the attention of Allied Engineers as Navy representatives was called to a subsidence which had theretofore occurred amounting to six-tenths of a foot and a margin of safety as to elevation was suggested. In the effort to have the Base constructed at a higher elevation, many discussions were had and through the efforts of the consulting engineers on the project, the efforts of the contractors, and the enforced meeting of higher grades set by the City, the Base was finally built higher than planned but not as high as suggested by the City.

Local interest - the Long Beach Harbor Board in particular - have been studying the problem in every phase without interruption since 1940-41, using both their own forces and outside consultants.

There have been five printed analytical reports to the Board, many volumes of additional study work, and, most recently, the \$165,000 study of the Stanford Research Institute, participated in by the Board and nineteen other sponsors, which will be available in printed form early in July. The latter group, incidentally,

in spite of intensive study, is not yet willing to assign cause of subsidence with certainty. Southern California Edison Company, Procter and Gamble Manufacturing Company, Ford Motor Company, Union Pacific Railroad Company, Los Angeles County, and numerous other agencies, have participated heavily in study work and in remedial work on the surface. A large portion of the staff of the Harbor Board works continuously on the subject.

The City of Long Beach itself is only one of the many local interests. This subsidence problem, while generally thought of as affecting principally the Terminal Island area, also includes Wilmington, part of the City of Los Angeles and considerable Los Angeles County area. Municipal properties of Long Beach are a comparatively small segment of the affected area. Hundreds of interests other than those of Long Beach are involved.

The local interests who are asked by the Navy by inference (for there has been no formal request for any action whatever made to local interests) to "stop subsidence" have far more in the aggregate at stake than does the Federal Government.

The cost of remedial work for local interests represents, in most cases, a very much larger percentage of the valuation of the property, and, without exception, local interests are less able to meet those costs than is the Federal Government. Ford Motor Company has already completed surface remedial work which probably cost close to 20 per cent of its plant valuation. The City of Los Angeles recently expended several hundred thousand dollars on raising Ford Avenue bridge alone. Procter and Gamble Manufacturing Company, Southern California Edison Company, Union Pacific Railroad Company, Signal Oil Company, Craig Shipbuilding Company, Long Beach Harbor and others have expended several millions in the aggregate in remedial work to date. Long Beach Harbor has approximately \$3,000,000 in remedial work scheduled for the next 18 to 36 months, much of which will benefit the Navy incidentally. Long Beach has anticipated its steel sheet piling needs for this work by three years.

Local property owners are just as desirous of a correct and early diagnosis and treatment of the subsidence problem as are the Navy or its consultants. After all, it is their property and their business which is at stake, and it is their revenues which must pay for their remedial work. Moreover, the profits from a successful secondary recovery program would be made by local interests as well as the losses of an unsuccessful program. If, in the opinion of their engineers, such a program were presently feasible, or at any time becomes feasible, there is no doubt that they would be recommending it to their managements.

Harbor industries and public agencies in several cases have already expended much greater percentages of their investments for remedial work than the total percentage estimated by the Navy and much more such expense is in sight, but their engineers are not advocating a pressure maintenance program as a cure-all.

The important thing to all concerned in this subsidence problem is to be realistic, determine beyond a reasonable doubt the amount of and period of subsidence, and construct logically.

No local interests close to the problem yet believe that the remedy is to be found anywhere than upon the surface of the land in the form of surface adjustments.

Surface remedies appear to be economically feasible and feasible from an engineering point of view and can be accomplished with negligible operating difficulties - the operating difficulty being confined principally to the reconstruction periods.

It is believed to be wishful thinking to conclude that any appreciable surface remedial expense is to be avoided through "stopping subsidence".

The views of local petroleum engineers of national reputation who have studied the secondary recovery possibilities do not bear out the views and estimates of the Navy consultants. Instead, the costs of secondary recovery or pressure maintenance throughout the field would, in their opinion, be many tens of millions of dollars, if not actually hundreds of millions, and would necessitate recompletions of literally hundreds of oil wells - for a purpose which is set forth merely as a possibility and is at variance with the opinions and beliefs of the responsible engineers whose problem it would be to develop the system and operate it.

There appears to be at least seven distinct producing zones, each separated one from the other by impervious strata, and at least six blocks, making a minimum of 42 distinct reservoirs. In addition, some zones consist of several distinctly different and separated sand lenses, each of which may be expected to act separately and limited. One of the analyses of secondary recovery work prepared by Mr. Raymond C. Kealer, Long Beach City Councilman and retired petroleum engineer, is being submitted to you to illustrate the total inadequacy of the Navy's conception of the pressure maintenance problem.

It is the opinion of the City and its consultants, whose study of the subsidence matter has been continuing since 1940 and has not been sporadic, that the mechanics of the subsidence phenomenon is such that within 12 to 18 months a reduction in rate of subsidence will become noticeable and that the total subsidence to be expected is substantially less than the maximum predicted by the Navy consultants - also that the lag between subsurface compaction and surface subsidence is much less than generally thought. If correct in this thesis, the year 1955 should see 85 per cent to 90 per cent of the total subsidence already occurred, and, as it would take at least that long to complete a pressure maintenance system, and even longer to make it effective, if indeed it could be effective, no value would be obtained from it.

The question might be asked, "What if subsidence should go on indefinitely?" The only answer is that no such extended phenomena of localized character has ever been observed, and that

the same theories which produce the suggestions of pressure maintenance are largely the theories which produce the estimates of amount and rate of subsidence.

The maximum estimate of subsidence appearing in the Harris report shows an estimated subsidence of 17 feet to 18 feet in the center of the area by 1955, the date of possible completion of an "effective" pressure maintenance system. The lag in time estimated by Harris between subsurface compaction and corresponding surface subsidence would result in pressure maintenance not being felt at the surface for some time after that if at all. Surface work would still have been necessary.

From the above it is felt that no sound basis exists today for launching a secondary recovery program which many operators estimate could be extremely damaging to the oil field if undertaken improperly or too early in the life of the field. For this reason, it is believed that this report represents essentially the view of all local oil field interests. To be sure, all operators are hopeful of secondary recovery producing more oil, and, individually, no doubt each operator is seeking to determine the possibilities. The Harbor Department of the City of Long Beach has long been cognizant of the need for study and has been giving the matter study through the medium of an excellent staff and recognized outside experts.

NAVY SURFACE REMEDIAL PROGRAM

Insofar as we are aware of the details of the surface remedial program of the Navy, it is felt that the program will very effectively meet the problem presented to the Navy by subsidence. Such a program will be essential in our estimation and should be planned to take the fullest advantage of opportunities to do construction work ahead of interference with high tides.

The appropriations asked for are important and the sums are very small in relation to the value of the Base - in the order of three per cent to four per cent. If the establishment is not worth that maintenance cost, it is indeed an expensive luxury. It is felt important that appropriations be provided in sufficient time to permit an orderly approach to the construction work, and that means now, and in the manner requested by the Navy, as we view it.

ERRONEOUS OUTLOOK PICTURED

It is felt most inappropriate that the impression should be conveyed by so many agencies to the unfortunate shipyard employee whose livelihood is affected by a general reduction in naval activity, or by the variations in work load between yards, that subsidence is the principal cause of his actual or potential lay-off. The facts as known do not support this point of view.

It is noted particularly that on page 5 of the 1949 Budocks report, by which the Navy and Congress is to be guided, it is stated, "Coincident with the study of subsidence itself, the

Bureau developed plans for dyke walls around the drydocks and piers and along the quay wall and other measures to prevent inundation of the Shipyard as a result of further subsidence. These plans were developed to provide needed protection at minimum cost, at the same time making possible continued full operation of the yard. The plans have been reviewed and approved by the Shipyard, the Bureau of Ships and the Secretary's Special Board." Surely this statement means what it says and we can see no reason for its contradiction.

LOCAL INTERESTS ACTIVITY

To summarize briefly some of the activity and study of local interests on this problem, note the following:

1. Consecutive and frequent surveys by Harbor survey groups and other governmental agencies from 1940 to date, with work continuing.
2. Continuous engineering study by Harbor Board petroleum engineers and civil engineers.
3. Report in 1941 by Dr. U. S. Grant, then chairman, Department of Geology of U.C.L.A., made to Board of Harbor Commissioners.
4. Report in 1945 by Dr. U. S. Grant, James Gilluly of the Department of Geology, U.C.L.A., formerly with the United States Geological Survey, and Harry Johnson, petroleum consultant.
5. Four printed reports by Dr. U. S. Grant and assistants since 1945 and related to the problem.
6. Continuous engineering work by staff of Southern California Edison Company from 1941 to date.
7. Continuous engineering work by J. H. Davies and staff, consulting engineer for Ford Motor Company, Proctor and Gamble Manufacturing Company and the Spreckles interests, as well as for the Harbor Board.
8. Consulting activity on secondary recovery and subsidence by Charles R. Dodson, petroleum engineer, who also has the chair for petroleum engineering for the University of Southern California.
9. Technical representatives of virtually all of the large property owners, the public and oil operators in the affected area have been working individually and collectively for the past 12 months on the problem - and of course many prior to that.
10. Ford Motor Company has expended upwards of \$925,000 on subsidence at its terminal.

11. The City of Long Beach has expended upwards of one-half million dollars to date on subsidence.
12. The local sponsors have financed the study by Stanford Research Institute, which includes much of the basic research which is inevitably necessary for better understanding of the problem.
13. Attached is a partial list - any list would probably be incomplete - of the personnel of worldwide and nationwide respect, who have engaged in this study for the local interests.
14. The nationwide bibliography on pressure maintenance, including over 1800 references to the subject, have been examined with no reference found to any example of pressure maintenance work being effective upon subsidence. The experiences of others as related in many of these references have been compared with local conditions.

LOCAL INTERESTS ARE MEETING THE PROBLEM

Local interests have been guided in their study by a series of recommendations made by the Technical Committee of the Harbor Subsidence Committee on June 25, 1948.

That group, copy of their report attached, recommended on page 5 of its report, that certain steps be taken. Recommendation No. 1, for the establishment of a representative permanent organization with authority and finances to continue the study of subsidence and remedial measures, has been met to date by the employment of Stanford Research Institute. Upon submission of the report and recommendations of the Institute early in July, the question of how continued study will be carried on will have to be again considered.

Recommendation No. 2 (a) regarding the making of depth measurements in wells with radioactive markers is being carried on. The evidence to date indicates that the results of radioactive marker measurements will not likely be conclusive.

Recommendation 2 (b) pertaining to surveys at Huntington Beach and Santa Fe Springs has been acted upon. U. S. Coast and Geodetic work still under way is necessary to check the Huntington Beach data, but Santa Fe Springs surveys show an additional subsidence of about one foot between 1932 and the present date.

Recommendation 2 (c) regarding a research program on coring and testing for consolidation data have taken upward of \$20,000 expenditure, including the theoretical development of original methods for coring which are even yet by no means certain of effecting the job.

Recommendation 2 (d) regarding laboratory work on pressure maintenance being started as soon as possible. Many thousands of dollars have been expended by the Harbor Board and by others

to try to determine the character of the different sands and their likelihood of responding to water flooding. Unfortunately, the more such tests are made the less attractive the possibilities appear.

Recommendation 2 (e) pertaining to continued study of well derangement, pressure maintenance, subsidence prediction and allied subjects has been responded to by continuous action which has at no time stopped.

ALLEN: Well, there a couple more paragraphs here, but I don't think I will read them unless somebody wants to read it in. There is also a statement attached by Mr. Kealer which analyzes in detail the different zones in the oil field. I am not going to read Mr. Kealer's statement in detail either, but he concludes by the statement - concludes substantially that pressure maintenance was not practical at that time.

SHOEMAKER: Mr. Chairman, may I ask a question? Mr. Allen is omitting two or three paragraphs there which he chose not to read.

ALLEN: I will be glad to read them.

SHOEMAKER: My thought was that if he is going to ask me some questions, I would like to have them all read.

CHAIRMAN McFALL: All right. He can read them all. I guess he is getting pretty tired.

ALLEN: Starting where I left off toward the end of your letter:

REPRESENTATION

You will recall that there was represented at the conference of June 3rd, the City Council of Long Beach by Mayor Burton W. Chace and Mr. Raymond C. Kealer, the Harbor Board by its president, Mr. W. R. Martin, its manager, Mr. E. J. Amar, and its chief harbor engineer, Mr. R. R. Shoemaker, the Long Beach Chamber of Commerce by its president, Mr. C. E. Scott, its vice-president, Mr. Earl B. Miller, and its manager, Mr. D. W. Campbell, the Harbor and Oil Committee of the City Council by Mr. Kealer, the Armed Services Committee of the Chamber of Commerce by Mr. Clint Furrer, its chairman, both the Chamber of Commerce and some of the large industries in the area by Mr. J. H. Davies, the City of

Long Beach Legal Department by its City Attorney Mr. Irving M. Smith, and the Press by Mr. George Burt and Mr. Edsel Newton of the Long Beach Press-Telegram, and by Mr. Lawrence Collins, Jr. of the Long Beach Independent. In addition you and Mr. Harry Wade were present.

This report is made and submitted to you primarily on behalf of the group there represented, excepting, of course, the Press, yourself and Mr. Wade, but as Mr. Amar is chairman of the General Harbor Subsidence Committee, handling the entire subsidence problem, and Mr. Shoemaker is chairman of the Technical Committee under the General Subsidence Committee, it is believed that the views here expressed are fairly representative of the consensus of views of all of the principal property and oil interests in the most affected areas of subsidence, other than the Navy. It is trusted that it will be of value to you in your objectives, which are a proper appraisal and provision for the Long Beach Naval Shipyard within the limits of national need.

Respectfully submitted,

S/

R. R. Shoemaker, Chief Harbor
Engineer, Port of Long Beach

Report approved
June 10, 1949, by

Burton W. Chace, Mayor, City of Long Beach
Raymond C. Kealer, Councilman and Chairman of Harbor, Industries
and Oil Committee of City Council
W. R. Martin, President, Long Beach Board of Harbor Commissioners
E. J. Amar, Port Manager and Chairman of General Harbor
Subsidence Committee
C. E. Scott, President, Long Beach Chamber of Commerce
E. B. Miller, Vice President, Long Beach Chamber of Commerce
D. W. Campbell, Manager, Long Beach Chamber of Commerce
Clint Furrer, Chairman, Armed Services Committee, Long Beach
Chamber of Commerce
J. H. Davies, Consulting Engineer for group of private harbor
industries

And a further statement of Mr. Kealer, and a list of expert personnel working on subsidence for local interest, which I will not read unless you request me to also.

SHOEMAKER: No, I just wanted the report finished.

ALLEN: That's all the questions I have or Mr. Shoemaker.

WORKS: Mr Chairman, may I ask one?

CHAIRMAN McFALL: Yes, Mr. Works.

WORKS: Mr. Shoemaker, do you care to make any comments upon the letter which Mr. Allen has just read, bearing in mind the circumstances under which the letter was written, the purposes for which the letter was written, and the question of whether or not there has been any change of circumstances, particularly with reference to the element of subsidence, since the date the letter was written?

SHOEMAKER: I think, Mr. Works, it might be wise to make a few comments in that respect. I believe the committee should know that the time this report was prepared there were threats of shutting down the Long Beach Naval Shipyard, which was a serious problem to the entire community, Los Angeles as well as Long Beach. The subject was before local interests as strictly a subsidence problem - it had been so presented - whereas the information had come to our attention from the Navy Department itself that the reason for the potential shutdown was one of economics and, as history will bear out, not too long after that not only the Long Beach Naval Shipyard was shut down but a great many other naval installations were either shut down or reduced in capacity. The group that had met with the Congressman had assured him of a summary which we would prepare and provide in this form, and as you may note, the report was prepared by myself with some advice from various petroleum engineers. It was then approved by the group that had consulted with the Congressman.

Later the same year the shipyard was shut down. The Bureau of Ships in particular, and the Chief of Naval Operations also, indicated that the reason was not subsidence but was general economics, that they desired to cut down on the budget.

There are a few points in the report which are presently outdated, just like we would say essentially in every report on subsidence that has been made to date, total amounts of subsidence were underestimated. I could probably point out about a half a dozen things which my opinion would differ on considerably today than in 1949. However, I am surprised it was such a good report hearing it after these six years.

CHAIRMAN McFALL: Well, one of the things I was interested in in the report which you made here was that there is a statement somewhere in there that the oil probably doesn't always cause the subsidence, or at least the extraction of oil doesn't always cause the subsidence. Is that still true?

SHOEMAKER: No. I think the intention of the report, and I believe it so states, was to convey the idea that there was a difference in opinion, still, among the petroleum engineers as to the cause of subsidence or the cause of the principle amount of subsidence. The characteristic subsurface that really causes subsiding in the opinion of essentially all the investigators at that time was the draw down in pressure, irrespective of whether it is oil or gas or water, and you might produce essentially no oil from the field, but if you continue to extract water from the field, I think you could reasonably expect to continue to have subsidence up to a point. That threshold or point, I believe, no one is fully capable of stating as yet. It has been predicted rather cautiously in the last year to a year and a half by a number of people that the total amount of subsidence will be from 30 to 32 feet by the years 1970 to 1972. I think there is only one investigator who has gone into it rather extensively who has

been willing to say that all subsidence will have stopped by 1972.

CHAIRMAN McFALL: Isn't it stated somewhere in here that - or don't I get the impression from this report that extraction of oil, and by extraction of oil I assume that you are going to extract a certain amount of water, is not the cause of subsidence?

SHOEMAKER: I don't recall any place where that was specifically stated or the intention of the statement was such, Mr. McFall. If you can find the spot, I will try to interpret it for you.

CHAIRMAN McFALL: It is kind of hard to find. I thought I marked it.

SHOEMAKER: There is one statement that was made several times, and that was that in all the reviews that we had undertaken, we found found no example where water flooding or repressuring had been introduced for the purpose of stopping subsidence, or had been known to have stopped subsidence. I think that might be explained, however, by the fact that it is very likely nobody had ever made an attempt.

CHAIRMAN McFALL: Page 3. Mr. Grover calls my attention to it. No. 14. "It must be remembered also that many well-qualified experts are yet of the opinion that the production of oil and gas is not the cause of subsidence".

SHOEMAKER: That was a true statement at the time. In fact, the so-called technical committee that is referred to included several technical representatives of nearly every major oil company in the field, and some guardedly agreed that it was a cause; some very definitely disagreed.

CHAIRMAN McFALL: And has the opinion changed now?

SHOEMAKER: There seems to be a rather general trend in that direction. I think the position of Richfield Oil Corporation is an example.

CHAIRMAN McFALL: Is there any change in the opinion as to the likelihood of stopping subsidence with gas or oil - or gas or water repressurization?

SHOEMAKER: I would say, Mr. McFall, that some of the investigators, and I believe that would be particularly true of Keplinger and Wanenmacher, who were referred to; also of Harris Engineers who make the reports to the Navy. I believe their feeling is considerably stronger today that it would be possible to modify the total amount of subsidence. My personal feeling would be that it would be possible if it turned out to be economically feasible and possible to repressure to the correct amount, and that correct amount, or correct percentage of original pressures, is something that I think no man can state today.

CHAIRMAN McFALL: Well, you were somewhat critical of both firms of engineers in this report. Do you agree with them more now than you did then in 1949?

SHOEMAKER: Well, I was merely pointing out in this report that there was a tendency all the way through the retelling of this story to elaborate upon the opinions of the petroleum engineers Keplinger and Wanenmacher. They had made one statement, but as the report developed, and then as the press and Navy personnel and people campaigning for political office proceeded to elaborate upon these statements, they became more and more positive. I was merely retracing - taking you back to the original . . .

CHAIRMAN McFALL: I should take, though, that you are somewhat sceptical of the results of water repressurization.

SHOEMAKER: I wouldn't be the slightest bit sceptical if we could reproduce the original pressures, or something very close to the original pressures, in a short period of time. However, that period of time is something that is highly important.

CHAIRMAN McFALL: And to go back to the cause of subsidence, in the seven years since this report was produced, you feel that the evidence built up during that time has been sufficient to indicate that the extraction of oil and gas is the cause of subsidence?

SHOEMAKER: I have no personal doubts of it myself, and I think I have a great many others who feel the same way exactly.

CHAIRMAN McFALL: You feel that the change in that opinion has been caused by the facts that have taken place in that seven years?

SHOEMAKER: That is a little hard to say. My opinion hasn't changed since 1945. However, I didn't find very many people agreeing with me in 1945. The change in opinion could conceivably be a change in policy of some of the operators in the area.

CHAIRMAN McFALL: In other words, at the time you wrote this report you felt that the extraction of oil and gas was the cause of subsidence?

SHOEMAKER: Yes, I thought so.

CHAIRMAN McFALL: Well, you certainly weren't trying to convey that impression to Mr. Doyle, were you?

SHOEMAKER: I was reflecting the opinion of the group that Mr. Doyle conferred with. It fell my lot, in other words, to write a report for the approval of this group, and I don't believe I - well,

to put it another way, I specifically avoided trying to be absolutely specific in setting forth my own particular views. I tried to pick views which represented the opinion of the entire committee, who later approved the report before it was transmitted.

CHAIRMAN McFALL: Acting as a reporter and not as an expert.

SHOEMAKER: In that sense, I believe.

ALLEN: Mr. Chairman.

CHAIRMAN McFALL: Yes, Mr. Allen.

ALLEN: Mr. Shoemaker, I will show you some more papers. I think the one on top was referred to in the report I just read. It is dated June 25, 1948, and is headed Progress Report No. 1. I will ask you if that is your signature at the end?

SHOEMAKER: That is correct, yes.

ALLEN: Then we have here a statement "Subsidence and What is Being Done About It". No date - oh, it has a date June 3, 1949, RS:AHS. Are those your initials?

SHOEMAKER: That is correct. That was prepared in our office, and I probably dictated the final form on it.

ALLEN: And then, also, a letter of September 1, 1949, addressed to Mr. E. J. Amar, Port Manager, a typewritten signature "R. R. Shoemaker". Do you remember preparing that document?

SHOEMAKER: That is correct. I remember very, very vividly the preparation of it.

ALLEN: I offer all of these as exhibits.

CHAIRMAN McFALL: And what would be the number on that?

GROVER: No. 137, Mr. Chairman. Could we make these . . .

CHAIRMAN McFall; "a", "b", "c", "d", and "e".

GROVER: The Progress Report No. 1 is 137a, "Subsidence and What is Being Done About It" is 137b, and the letter to Mr. Amar is 137c.

CHAIRMAN McFall: Do you have something further, Mr. Allen?

ALLEN: Not from Mr. Shoemaker, no.

CHAIRMAN McFall: Mr. Grant, do you have a question of Mr. Shoemaker?

GRANT: I would like to ask him a couple of questions. Mr. Shoemaker, on this letter to Mr. Clyde Doyl, Congressman, Item 136, I believe, on Page 8, paragraph 7, it reads in part, " . . . if correct, and this ceases, the year 1955 should see 85 to 90 per cent of the total subsidence already occurred". Did you feel at that time that that was substantially correct?

SHOEMAKER: I thought so, yes. I think I was wrong now.

GRANT: Well, that is the point I want to bring out. Further on in paragraph 9, "The maximum estimate of subsidence appearing in the Harris report shows an estimated subsidence of 17 feet to 18 feet in the center of the area by 1955". Has that proven correct or incorrect?

SHOEMAKER: It has proven incorrect. The total amount of subsidence in 1955 at the center of the bowl attained something on the order of 22 feet.

GRANT: Do you feel that nearly all that worked on the project at that time had really agreed with this statement made here that that would be the total subsidence as of that date?

SHOEMAKER: Yes, I do, with the single exception of the Harris Engineers, and I might explain there very briefly that the prevailing opinion was that consolidation was taking place in

sands only, and that there was no evidence of consolidation in shales and clays. Since 1949, the latter has become evident as a result of a good many things.

GRANT: Well, apparently you felt so strongly, or did you, that subsidence was retarding to the extent that the expense involved would be much less in repair work?

SHOEMAKER: We thought so, yes. About two years after that my views on possible expenditures for remedial work increased very much, and not simply because of the dollar value either.

GRANT: That was after AB 3400 was presented, was it?

SHOEMAKER: No, sir, it was before that.

GRANT: Thank you.

ALLEN: One more, Mr. Chairman. Mr. Shoemaker, I will show you Exhibit No. 128, an old map, and I will ask you if it isn't correct that the approximate center of subsidence in the Long Beach Harbor area today is right about at the point which is shown as a bay adjacent to the word "island" in the lower left hand corner of this map, being the inner harbor of the City of Long Beach?

SHOEMAKER: Well, I would say that the approximate center of subsidence in the Wilmington field is at a point just inside the inlet, or rather, let's put it the other way, the outlet of the old San Gabriel River into the Ocean. I would not say that it was related to a bay. I see a volume of water indicated on the map, but it doesn't necessarily indicate to me a bay. It is not so stated, and to the best of my knowledge and belief, it was not a bay.

ALLEN: Well, whether you call it a bay or something else, the point it indicated is that I asked about, isn't it?

SHOEMAKER: Yes, I would say just slightly off the outlet from the San Gabriel River.

ALLEN: That's all I have of this witness, Mr. Chairman.

There has been considerable reference throughout these proceedings to the Federal Mineral Leasing Act of 1920 and two scrip acts. I have here an opinion from the Legislative Counsel which I would like to file with the committee. I have copies of that prepared. It is not very long, and I would like to read it into the record.

CHAIRMAN McFALL: No. 138.

ALLEN: It is from the Office of the Legislative Counsel, dated January 13, 1956, and addressed to myself:

"QUESTION NO. 1

"Your first question is whether scrip issued under the Valentine and Gerard Acts is valid as to filings made on Long Beach tide lands in view of the enactment by Congress in 1953 of the Submerged Lands Act.

"OPINION NO. 1

"It is our conclusion that neither the Valentine or Gerard Acts authorizes filings upon tide and submerged lands.

"ANALYSIS NO. 1

"The Gerard Act is Chapter LXVIII of 10 United States Statutes at Large, page 849, adopted February 10, 1855. That act granted to Reese, A. P. Gerard, William Gerard, and Rachel Blue the right to 'one section of the public lands, without the payment of any consideration' as full payment for the services rendered to the Federal Government by Joseph Gerard in 1792. We find no indication that the act has been amended and the only court decision which our research has disclosed concerning this act has resulted in a dismissal upon the basis that the land upon which it was sought to file had been withdrawn either by Act

of Congress or by Act of the President (West Coast Exploration Co. v. McKay, 213 Fed. 2d, 582).

"The Valentine Scrip Act is the Act of April 5, 1872, 17 United States Statutes at Large 649, by which the Congress of the United States granted to Thomas P. Valentine the right to file an action to determine his title to certain lands in the State of California under a Mexican grant to Juan Miranda and provided that upon a determination in his favor 'the claimant or his legal representative, may select, and shall be allowed, patents for an equal quantity of the unoccupied and unappropriated public lands of the United States, not mineral.' Apparently the action terminated in favor of Thomas P. Valentine, for Valentine's scrip was issued and is referred to in the regulations of the Bureau of Land Management (43 C.F.R. 133) and is specifically mentioned by name in the act of August 5, 1955, Public Law 247, Chapter 573 (U. S. C. Congressional and Administrative News, 84th Congress, page 3876) providing that such scrip must be recorded with the Department of Interior within two years of the effective date of the act. In the case of West v. Lyders, 36 Fed. 2d 108 and in the case of Lyders v. Ickes, 84 Fed. 2d 232, the rights of holders of Valentine's scrip were considered. Neither case is pertinent to the inquiry here. In the first decision it was held that the Secretary of Interior must recognize the selection of the holder of the Valentine scrip and an injunction was issued restraining him from issuing a patent to the island in question to other persons. In the second case it was held that the land in question had in fact been withdrawn prior to the selection made by the holder of the scrip.

"In both statutes the right is given to 'public lands' of the United States. In the case of Justheim v. McKay, 24 L. W. 2298, the Court of Appeals for the District of Columbia construed the term 'public lands' to exclude lands lying below the low tide line off the California coast. The decision of the United States District Court for the District of Columbia in the same case (123 Fed. Supp. 560) concludes that the Mineral Leasing Act of 1920 as amended (30 U.S.C.A. Section 181 et seq.) does not apply to lands lying below the low tide line off the California coast. The court stated that 'public domain, the term used in the title of the Mineral Leasing Act, has been held the equivalent of the term 'public land'' (p. 562) and stated, 'In order for lands to be public lands of the United States and subject to disposition under general laws, they must first be owned by the United States. In the case of the marginal sea lands, there has been no holding of ownership by the United States. Therefore, while these are lands in which the interest of

the United States is paramount, they are not public lands'. (p. 567).

"Basing our conclusion on the authority of the case of Justheim v. McKay, we conclude that neither the Valentine Act nor the Gerard Act confers upon the holder any right to tide and submerged lands. In so doing we recognize that the case of Justheim v. McKay is not final at this time and is subject to further review by both the Court of Appeals and the United States Supreme Court.

"QUESTION NO. 2

"Your second question is whether the Submerged Lands Act of 1953 preserves to claimants under the Valentine and Gerard Acts the right to perfect and process their claims.

"OPINION NC. 2

"It is our conclusion that the Submerged Lands Act of 1953 has no effect upon the rights of claimants under the two acts mentioned.

"ANALYSIS No. 2

"The Submerged Lands Act of 1953 (P. L. 31, Ch. 65, 83rd Cong.) provides in Section 8:

'Nothing contained in this Act shall affect such rights, if any, as may have been acquired under any law of the United States by any person in lands subject to this Act and such rights, if any, shall be governed by the law in effect at the time they may have been acquired: Provided, however, That nothing contained in this Act is intended or shall be construed as a finding, interpretation, or construction by the Congress that the law under which such rights may be claimed in fact or in law applies to the lands subject to this Act, or authorizes or compels the granting of such rights in such lands, and that the determination of the applicability or effect of such law shall be unaffected by anything contained in this Act.'

"This section saves to certain persons any rights that they may have had 'in lands subject to this act'. In view of our conclusion that claimants under the Valentine and Gerard Acts have no rights in tide and submerged lands, this section can have no effect upon

their rights. The proviso contained in this section indicates the intention of Congress that no rights be conferred upon claimants which they do not have under other statutes.

"QUESTION NO. 3

"Your third question is whether there is any difference in the validity of these claims as between submerged lands outside of inland waters and as to submerged lands under inland waters and bays.

"OPINION NO. 3

"It is our opinion that the holders of the scrip have no greater rights in inland waters than they have in submerged lands outside of inland waters. They have no rights in either event.

"ANALYSIS NO. 3

"As pointed out above, holders of scrip under either the Valentine or the Gerard Acts are entitled to file upon 'public lands' of the United States. So far as we are aware, no contention has ever been made by the Government of the United States that it had any interest in submerged lands lying beneath the inland waters of the State (U.S. v. California, 332 U.S. 19, p. 22).

"In the case of United States v. Mission Rock Co., 189 U.S. 391, a grant of lands from the State of California was held valid in a suit in ejectment filed by the United States, the court recognizing that title to submerged lands in the inland waters of San Francisco Bay was vested in the State of California and not in the United States. Since lands beneath inland waters remained the public lands of the State and not of the United States, neither the Valentine nor the Gerard Acts are applicable to them.

"Very truly yours,

"Ralph N. Kleps
"Legislative Counsel

"By Charles W. Johnson"

Now, Mr. Chairman, Mr. Annand has been reviewing some records and has some testimony, and if it is convenient for the committee, I would like to call him.

CHAIRMAN McFALL: Mr. Annand.

(Witness sworn by Chairman McFall)

CHAIRMAN McFALL: Your name is James Annand?

MR. JAMES ANNAND: James Annand.

CHAIRMAN McFALL: And you are assigned to the staff of this committee and are also a member of the Legislative Auditor's staff. Is that correct?

ANNAND: That is correct. I would like to make a correction on the agenda there, however, where it states that I am representing the Legislative Auditor which, of course, I am not. I am representing the committee. I am employed by the committee.

CHAIRMAN McFALL: You are employed by this committee, assigned from the Legislative Auditor's staff.

ALLEN: Mr. Annand, you made an inspection of some of the records of the Long Beach Oil Development Company?

ANNAND: I did.

ALLEN: And that was at the offices of that company in downtown Long Beach?

ANNAND: Yes, sir.

ALLEN: And who was present when you made that inspection?

ANNAND: The first inspection I made was in the presence of Mr. Shrewsbury, Mr. Jonah Jones, Mr. George Grover, yourself, and myself. Further calls that I made, for example on stock certificates, I received that at the office of the Hancock Oil Company. Mr. Shrewsbury keeps those stock certificate records in his office there.

ALLEN: And who is Mr. Shrewsbury?

ANNAND: He is the treasurer of the Hancock Oil Company.

ALLEN: And do you know whether he is also an officer of

Long Beach Oil Development Company?

ANNAND: I believe he is the treasurer, also, of the Long Beach Oil Company.

ALLEN: And was he present at all times when you were examining the records?

ANNAND: Yes, he was, with the exception, however - with one exception, Mr. Allen, when I went to get the information as to the advances made by the various individuals and companies. I did that in the presence of Mr. George Eckhardt, who is the accounting officer for the Long Beach Oil Development Company, and I inspected the records there in his presence.

ALLEN: The records you inspected were various original records of Long Beach Oil Development Company?

ANNAND: Yes, sir. They were.

ALLEN: And the information you got was compiled from a number of pages? Is that correct?

ANNAND: Yes, sir.

ALLEN: You have also inspected the ledger receipts which have been previously introduced as exhibits before this committee?

ANNAND: Yes, sir.

ALLEN: Now, could you tell us from your inspection of these records when the stock of the Long Beach Oil Development Company was first issued?

ANNAND: On June 12, 1941, stock certificate No. 1 was issued to the Hancock Oil Company.

ALLEN: Do you have a summary of the issue of those certificates?

ANNAND: I have.

ALLEN: And various transfers that were made later?

ANNAND: Yes, sir.

ALLEN: And that is up to what date?

ANNAND: That is up to December 16, 1954 - December 16, 1954 was the last stock certificate that was issued or transferred.

ALLEN: I mean what date did you make your examination?

ANNAND: Oh, that was on January 23rd of this year.

ALLEN: And this summary you have in your hand indicates the records of Long Beach Oil Development Company on issue and transfers of stock up to the date of your examination?

ANNAND: Yes, sir.

ALLEN: I would like to offer that in evidence.

CHAIRMAN McFALL: No. 139, Mr. Grover informs me.

ALLEN: Now, do the records of Long Beach Oil Development Company show that prior to the issue of stock - what was the date you said the stock was issued?

ANNAND: June 12, 1941.

ALLEN: All right, now, the records of that company show that prior to the issue of stock, the persons and corporations who later became stockholders had made cash advances to the Long Beach Oil Development Company.

ANNAND: Yes, sir.

ALLEN: And when was the first such advance made?

ANNAND: On March the 13th, 1939.

ALLEN: By whom?

ANNAND: The Hancock Oil Company.

ALLEN: And when was the next one?

ANNAND: The following day, March 14th, 1939, by the Standard Oil Company in amounts of \$500,000 each.

ALLEN: And when was the next one?

ANNAND: Not until June 10, 1939. Jergins Oil Company advanced \$100,000.

ALLEN: And that was on June 10, 1939, and following it the other persons who later became stockholders made their advances.

ANNAND: On various dates up to October 7th, 1939, was the last advance that was made.

ALLEN: And were those advances later repaid according to the records of this same company?

ANNAND: Yes, sir.

ALLEN: And was part of those advances credited to the stock issue as the . . .

ANNAND: Yes. \$500,000 was credited to stock issued.

ALLEN: That was a consideration for the stock issue as shown on the records of this company?

ANNAND: Yes, sir.

ALLEN: And were those advances interest bearing advances?

ANNAND: They were. They bore interest at seven per cent.

ALLEN: Was interest paid on those?

ANNAND: Yes.

ALLEN: That is according to the records of this company?

ANNAND: Yes, sir.

ALLEN: Now, do you have a statement - a typewritten statement that shows the dates these advances were made to the company?

ANNAND: Yes, I have.

ALLEN: I would like to offer that in evidence as the next exhibit, please.

CHAIRMAN McFALL: Number 140.

ALLEN: Give Mr. Works a copy of that, please.

Now, aside from the \$500,000 of the advances that was charged for the stock, were the rest of the advances with interest repaid to the people who put the money in?

ANNAND: Yes. Yes, it was.

ALLEN: At least, according to the record . . .

ANNAND: According to the record, yes.

ALLEN: All of your testimony is according to those records?

ANNAND: That's right.

ALLEN: You have no personal knowledge . . .

ANNAND: None at all.

ALLEN: . . . of these particular transactions. Do those records show what dividends were paid on this stock?

ANNAND: Yes, they do.

ALLEN: What was the total amount of those dividends?

ANNAND: On the capital stock of \$500,000, the total dividends paid was \$30,675,000.

ALLEN: Up to what date?

ANNAND: Up to September 30, 1955.

ALLEN: Now that shows on what document? Do you have on front of you there?

ANNAND: Yes. That is on this document here.

ALLEN: Do you have a summary of the dividend payments?

ANNAND: Yes, I have.

ALLEN: You have prepared it in typewritten form. Is that correct?

ANNAND: Yes, that's right.

ALLEN: I would like to offer that into evidence, please.

CHAIRMAN McFALL: That's No. 141.

ALLEN: Mr. Annand, this last exhibit shows the stock issue, the amount paid for the stock at par value, the total amount of dividends paid up to the date of your examination.

ANNAND: That's correct. I might state that I haven't, for example, on Stock Certificate No. 4 to the Jergins Oil Company, shown the transferees on there because that was shown on the other exhibit. In other words, that was the original certificate issued to the Jergins Oil Company and the later transferees. That is the total amount that was earned on that . . .

ALLEN: In other words, on the first certificate described here, Certificate No. 4 to Jergins Oil Company . . .

ANNAND: Yes.

ALLEN: . . . eighty-five shares at an investment of \$42,500, the total dividends paid to September 30, 1955 was \$2,670,375. Now, that is the amount paid on that . . .

ANNAND: Original . . .

ALLEN: . . . stock, including the original owners and the . . .

ANNAND: Transferees. Yes.

ALLEN: . . . transferees. All right, thank you. And the same would apply to Certificate No. 6 in the name of A. N. MacCrate?

ANNAND: Yes.

ALLEN: And one of the other statements shows that as since being transferred.

ANNAND: That's right. In other words, Mr. MacCrate passed away and it went to his heirs, four of them.

ALLEN: I think that is all I have, Mr. Annand.

CHAIRMAN McFALL: Any other members of the committee have

any questions of Mr. Annand?

GRANT: I think not, but there is one observation I would like to make at this time. I believe this is the company that Mr. Jones, President of the Richfield, referred to as having had something to do with the organization and then felt that it was not a good investment.

ANNAND: I don't know anything about that, Mr. Grant.

GRANT: It is just an observation.

ALLEN: We will have some more on that, Mr. Grant. I want you to be satisfied that we are making a complete investigation.

GRANT: There is no doubt about that.

CHAIRMAN McFALL: Now, what about tomorrow morning? How much are we going to have?

ALLEN: Mr. Mansell, Mr. Freeman Castle, and Mr. Lamb are due to appear. I couldn't say how much questioning there will be. I hope we can be finished by noon.

CHAIRMAN McFALL: Well, how much would you anticipate? Do you think we should start at 9:00 o'clock, or do you think we should start at 10:00?

ALLEN: I would be very happy to start at nine, Mr. Chairman. I don't know about the other gentlemen who are going to participate, but Mr. Castle's subpoena, I think, says 10:00 o'clock on it, although I am not sure. Is Mr. Castle here?

CHAIRMAN McFALL: I don't want to run into the same situation we did last time where we go until we are about ready to drop and then rush out of here.

ALLEN: If Mr. Mansell and Mr. Lamb are agreeable to starting at 9:00 o'clock, I think it would be very well to do it.

CHAIRMAN McFALL: Is that all right with you, Mr. Works, to start at 9:00?

WORKS: It makes no difference to me, Mr. Chairman. I live in Los Angeles, not in Long Beach. Mr. Allen did refer to the two witnesses in question. Whatever the chairman agrees with is all right with me.

CHAIRMAN McFALL: Well, if there are no objections.

WORKS: Would 9:30 be equally acceptable?

CHAIRMAN McFALL: Well, that's all right. There shouldn't be too many questions, should there?

ALLEN: Well, there are some other things that I have, but if we run late, why, we can just, as far as documents I have, cut that off and put them in at some future meeting.

CHAIRMAN McFALL: All right. Let's make it 9:30.

WORKS: I might say, Mr. Chairman, and Mr. Allen, as far as the exhibits are concerned, we can deliver those to Mr. Grover at any time if we run out of time tomorrow. There's no problem about what we have.

CHAIRMAN McFALL: All right, then, 9:30.

Adjournment 5:25 p.m.

January 28, 1956
9:30 a.m.

CHAIRMAN McFALL: The committee will be in order. Let the record show that Mr. Miller, Mr. Weinberger, Mr. Grant, and Mr. Allen are here; Mrs. Stall and Mr. Grover of the staff; Mr. Annand and Mr. Keller of the Legislative Auditor's staff, and Mr. Kuns of the Legislative Counsel staff; also the chairman.

Now, Mr. Allen.

ALLEN: Mr. Chairman, Mr. Annand was on the stand last night. I forgot to ask him about some other records he had, and I would like to call him back this morning, please. He has already been sworn.

Mr. Annand, during your examination of the books of the Long Beach Oil Development Company, did you have occasion to prepare an analysis of two of the ledger accounts which list the total amounts entered for each recipient of moneys under those accounts?

ANNAND: Yes, sir, I did.

ALLEN: Do you have those with you?

ANNAND: Yes. Account No. 403 was money paid out for so-called professional services.

ALLEN: Could you speak a little louder, please?

ANNAND: There were two accounts. Account No. 403, which is headed on the ledger sheet "For Professional Services" and Account No. 409 for "Miscellaneous Payments".

ALLEN: And you have those notes with you?

ANNAND: Yes, I have.

ALLEN: I would like to offer them in evidence.

CHAIRMAN McFALL: Well, could we ask him a little more - what did he do, copy them or . . .

ANNAND: I took those right from the ledger sheets themselves.

CHAIRMAN McFALL: They are copied exactly in your own handwriting?

ANNAND: Exactly. In my own handwriting. I have had no chance to have them typed yet.

ALLEN: Mr. Annand, in copying this information, the ledger sheets you took this off of are in a volume - a thick volume . . .

ANNAND: In the general ledger, yes.

ALLEN: . . . in the office of the Long Beach Oil Development Company.

ANNAND: That is correct.

ALLEN: And who was present when you compiled this information?

ANNAND: Mr. Jonah Jones and Mr. Shrewsbury, Mr. Grover, yourself, and myself.

ALLEN: And the information you have is taken from a number of sheets?

ANNAND: Yes, that's true.

ALLEN: And you have listed it under - the totals under the names of the people who got the money?

ANNAND: That is correct.

ALLEN: For example, if there were checks to a flower shop, you totaled the amounts paid to the flower shop, and you have before you a sheet with the total amount paid to the flower shop.

ANNAND: That's correct.

ALLEN: And the same with the other recipients.

ANNAND: Yes, sir.

ALLEN: Can you tell us what the largest items are in those accounts?

ANNAND: In Account No. 403, the larger items there, the first one is Jonah Jones for \$118,531.89; Valley, Vilson and Kenney, \$15,020; Lawler, Felix and Hall, \$14,348. I am leaving out the smaller ones. These are the items that . . .

ALLEN: Just give us the larger ones and we will put the whole thing in evidence.

ANNAND: Harold Clary, \$2,900; Finless, Bennett and Morrow, \$10,735; O'Melveny and Myers, \$117,610; Roy Brown, \$22,610.90. That is under Account No. 403 for "Professional Services. On Account No. 409, the larger items in there are Jonah Jones, \$5,899; Hancock Oil Company, \$162,210.

CHAIRMAN McFALL: What is Account 409?

ANNAND: That is for "Miscellaneous Expenditures". It is under the heading of "Miscellaneous". J. W. Gifford, \$3,900. There are three items in there that I haven't been able to get information as to what they were for particularly. One was made to Kirk Hill, Treasurer, for \$1250. That was a check dated April 30, 1946, and the voucher shows it was for campaign purposes. There was another check made payable to Edward H. Heller, Treasurer, for \$4,000, dated April 30, 1946, also for campaign contributions. On March 22, 1948, a check was issued to E. Piles, Treasurer - or Trustee - for \$25,000, and the voucher shows that also was for campaign expenses; O'Melveny and Myers, \$36,502 in addition to the \$117,000 on the other page; Ernhart's Turkey Ranch, \$18,000 for turkeys; Chamber of Commerce, Long Beach, \$4,000;

Pacific Coast Club, \$5,000; Long Beach Community Chest, \$40,000; Lafayette Hotel, \$3,300. Those are the most significant items that are in there.

ALLEN: I would like to put both documents in evidence in the committee, please.

CHAIRMAN McFALL: What number, please, Mr. Grover?

GROVER: No. 142 for No. 403, and No. 143 for No. 409.

CHAIRMAN McFALL: Mr. Annand, you were saying that these were in your. . .

ANNAND: In my own handwriting, yes.

CHAIRMAN McFALL: . . . own handwriting, and do you desire that these matters be copied so that . . .

ALLEN: I know Mr. Annand would like to have the privilege of making the copies for his own records and perhaps also for the committee.

Now those three last documents include not only the summary you have just described, but also the notes you made in preparing the summary?

ANNAND: That is correct.

ALLEN: And to the best of your knowledge this represents what is shown on the books of the Long Beach Oil Development Company in those two accounts?

ANNAND: That is correct.

ALLEN: That's all I have for Mr. Annand. Thank you.

CHAIRMAN McFALL: Do you have a question, Mr. Works?

WORKS: I have two or three questions, please, Mr. Chairman. I was wondering if I could look at these. Mr. Annand, did you ascertain the date on the last payment shown on the current

exhibits which was made to O'Melveny and Myers?

ANNAND: No, I did not. No. That's one omission. I didn't get the dates the payments were made.

ALLEN: I think I could clear that up, Mr. Works. It was several years ago, as I recall.

WORKS: Several years ago, Mr. Allen?

ALLEN: I believe it was. I don't remember the date myself.

WORKS: Did you make any investigation to determine for what services the amounts you mentioned were paid to O'Melveny and Myers?

ANNAND: No, I did not.

WORKS: Mr. Allen, may we agree that the services rendered by O'Melveny and Myers to the Long Beach Oil Development Company embraced representation of that company, and certain other oil companies, and that the nature of the services were first, resisting the claims of the United States Government in the case of United States v. State of California; second, in furthering federal tidelands legislation which culminated in the Submerged Lands Act of 1953; and third, in resisting the claims of federal lease or scrip applicants typified by the case of Justheim v. Chapman, I believe it originally was, or Justheim v. Miller - it has had two names. Justheim v. McCabe, pardon me.

ALLEN: It is my understanding, Mr. Works, that the amount paid to O'Melveny and Myers covered the first two items you mentioned. I didn't know anything about the services of your firm in resisting the scrip applications, but if you say that is what it was for, I will be happy to accept your statement.

WORKS: Fine. And in connection with the resistance of the

claims of the government in the United States against California, do you agree that at one time, and for a certain period, William W. Clary, a partner in the firm of O'Melveny and Myers, was also appointed a special assistant to the Attorney General of the State of California in representing the interests of the State?

ALLEN: Well, I should take your word for it if that is what you say. It is my understanding that the State of California paid either Mr. Clary or O'Melveny and Myers approximately \$50,000 over a period of two or three years on that litigation. Just how it was handled - I am satisfied to accept your statement.

WORKS: You have no doubt, though, that those sums were paid for active representation in the interests of the State?

ALLEN: I don't question it at all.

WORKS: Thank you. I have no further questions.

CHAIRMAN McFALL: Do you have any further questions, Mr. Allen?

ALLEN: No. Mr. Mansell is here with some papers that he was asked to produce on the occasion of his last testimony, and he agreed to go back in his files and bring these to the committee.

WORKS: Mr. Chairman, may we request the indulgence of the committee while we locate certain documents which Mr. Allen has specified?

ALLEN: While Mr. Mansell is doing that I would like to put into the record two sets of photostatic copies of audit reports from the City Clerk's Office in Long Beach, covering the annual audits for the years '52 to '53 and '53 to '54 of the Harbor Department, the Long Beach Oil Development Company, and Richfield Oil Corporation. These are rather voluminous. They include a

great deal of information which will be of value to the committee in analyzing the problem before us.

CHAIRMAN McFALL: Is there any way that we can specify what each one of these is, Mr. Allen?

ALLEN: They all have a title on the front of them. There are six exhibits here, and I think that there is a letter with each one.

CHAIRMAN McFALL: Each one has a covering letter explaining what it is, from the City of Long Beach?

ALLEN: Well, it's a letter addressed to the City of Long Beach - a cover letter - on each audit report. The letter is from the City Auditor to the city, covering the particular report.

CHAIRMAN McFALL: And these are photostatic copies of records of the City of Long Beach, are they, supplied you by, or with the cooperation of the City of Long Beach?

ALLEN: That's correct. The photostats were prepared by the City Clerk at the committee's request, and I believe they are all certified copies.

CHAIRMAN McFALL: All right. Now, Mr. Grover, do you want to designate which is which.

GROVER: Number 144 would be the Harbor Department Audit for 1953-1954. Number 145 would be the L.B.O.D. Audit for 1953-1954. Number 146 would be the Richfield Audit for 1953 and 1954. Number 147 would be the Harbor Department Audit for 1952-1953. Number 148 is the L.B.O.D. Audit for 1952-1953, and No. 149 is the Richfield Audit for 1952-1953.

CHAIRMAN McFALL: All right, Mr. Mansell.

MR. JOHN MANSELL: Do you want me to present these to you?

CHAIRMAN McFALL: Well, just a minute. Perhaps Mr. Allen . . .

ALLEN: Why don't we let Mr. Mansell just go ahead and describe what he has.

MANSELL: Do you wish me to read these?

CHAIRMAN McFALL: No. Just hand them in.

ALLEN: Why don't you just describe the rest of those?

MANSELL: All right. Number 1 . . .

CHAIRMAN McFALL: Which will be designated as No. 150.

MANSELL: . . . is a summary of special communications transmitted to the Board of Harbor Commissioners and pertaining to Harbor Department and administrative and operating procedures. Now, the minutes were a little vague on the subject, that is the first ones that we got - not the completed ones - and Mr. Allen himself asked for this in my office. I have a special letter on this, addressed to the City Attorney, which I am also filing for your information because I think the story is only half told. I know Mr. Allen and everyone wants the complete picture, so I think in giving you what was done after the criticisms were made, you will have a more complete picture.

CHAIRMAN McFALL: All right, now, the entire exhibit is 150, and your report, which you designated first, will be 150a, and the letter from the City Attorney will be designated as 150b. Then, the next exhibit you have will be referred to as 151.

MANSELL: Exhibit 151 is the financial status of various funds receiving tideland oil revenue. Mr. Allen asked that an up-to-date summary be made, and this is the assets of the Tideland Oil Fund, the Public Improvement Fund, the Harbor Revenue Fund, the Harbor Reserve Fund, and lists the net assets of all

the funds in total. He also requested that each month this schedule be forwarded to Mr. Grover. That will be done. The next one is the submission of a statement . . .

CHAIRMAN McFALL: You can refer to that as 152.

MANSELL: 152 is the submission of a statement of Gas Department surplus transfers from July 1, 1932 to June 30, 1955.

CHAIRMAN McFALL: Next in order is 153.

MANSELL: The next one is the land purchases, which is No. 153, by the City of Long Beach from tideland oil funds in the Marina area. That was also requested by Mr. Allen.

No. 154 is submitted from a request of Mr. Weinberger, which is copies of the resolutions establishing depreciation rates, the Long Beach Harbor Department, dated September 16, 1946 and July 11, 1955. In this schedule here we have a short letter of explanation; in addition to the resolutions we have the methods of computing the depreciation, and also the annual average maintenance costs.

CHAIRMAN McFALL: That is designated as 154. All right, then, the next one will be 155, Mr. Mansell.

MANSELL: 155 is submitted at the request of Mr. Allen, which is a transmittal of copies of the City Auditor's letters of objections filed with the Board of Harbor Commissioners since 1939. Also transmitted herewith is my letter to the City Attorney, which gives a brief resume of the objections; in addition to the letters attached hereto, also gives the action by the board, and if relevant and available, we also gave copies of legal opinions. That is all I have, Mr. Allen.

ALLEN: When you get them marked, could I see them, Mr. Grover?

This statement 151 shows the total net assets in all tidelands oil funds as of December 31, 1955, \$169,767,983.

MANSELL: Yes, sir. That is correct.

ALLEN: Do you recall how much of that was agreed to be impounded approximately?

MANSELL: I think of those figures, Mr. Allen, there will be \$109,000,000 from the \$168,000,000, plus \$2,000,000 that has now accumulated in the Gas Revenue Fund, which isn't included in that computation.

ALLEN: Now, this Exhibit 153 lists land purchases in the Marina area. Were those . . .

MANSELL: Would you give me the date of that, Mr. Allen, so I can follow you - the date of my letter, and then I can look in my file here.

ALLEN: The letter dated January 25, 1956, addressed to the City Attorney. . .

MANSELL: Oh, yes.

ALLEN: . . . listing the land purchases in the Marina area.

MANSELL: Oh, yes, sir.

ALLEN: Were those all for this yacht harbor?

MANSELL: Yes, sir.

ALLEN: Do you know whether these purchases were made of tidelands?

MANSELL: What do you mean by that, sir? Whether the property purchased was tidelands?

ALLEN: Yes.

MANSELL: As described on the schedule there, they are for the bridge - abutments to the bridge - and to my recollection I

wouldn't say they were, sir. On the 52 acres, you have stated that that is tidelands, but other than that . . .

ALLEN: Oh, you got the 52 acres purchased in 1950 to '51 for \$135,000. Is it your understanding that that property was tidelands?

MANSELL: I said that you said it was.

ALLEN: You don't know whether it is or not?

MANSELL: Well, I have never seen any legal determination on whether it was or not, sir.

ALLEN: Did you ask for one?

MANSELL: I didn't ask or sign the voucher. It was done before I was in.

ALLEN: On these bridge approaches, you don't whether that is tidelands or not.

MANSELL: I would say no, Mr. Allen.

ALLEN: And I understand there was another purchase pending for approximately \$230,000 that has not yet been consummated?

MANSELL: That, I understood, is in the minutes. Nothing has come to me on it.

ALLEN: Do you know what the status of that is?

MANSELL: No, sir, I don't.

ALLEN: There hasn't been a voucher presented to you for signature?

MANSELL: No, sir, there hasn't.

ALLEN: You don't get these until there is a voucher across your desk?

MANSELL: We don't get them until they are all through.

ALLEN: Nobody gets their money until it passes you. Is

that right?

MANSELL: Sir?

ALLEN: You say that a recipient doesn't get the money either until it passes your office?

MANSELL: That's right, sir.

ALLEN: On this letter dated January 11, 1956, Exhibit 155, you refer to various protests that were made - one here, No. 5, regarding the bond furnished by Long Beach Oil Development Company. Does that company have a bond on file with the city or the Harbor Department now?

MANSELL: Yes, sir. They are required to have a bond, I believe - and I am speaking from memory now - that they are required to have a bond of \$100,000, I believe, for all parcels but one, and the other parcel, I believe, is \$50,000, Mr. Allen.

ALLEN: \$100,000 on each parcel.

MANSELL: Except one. Now, I am speaking from memory, but I believe that is correct.

ALLEN: On the original contract, that would be \$400,000.

MANSELL: Four or five hundred. There were six of them.

ALLEN: There were four parcels to begin with.

MANSELL: Yes. Oh, on the original, yes, sir.

ALLEN: And according to this analysis, that was originally handled by a cash deposit in the amount of \$400,000?

MANSELL: According to the information as contained here, yes.

ALLEN: Now, that has since been replaced by a bond. Is that a corporate surety bond?

MANSELL: Yes. I really couldn't tell you the company

that is handling, but it is a surety bond.

ALLEN: That bond is in the possession of the city somewhere?

MANSELL: I believe it is, yes, sir.

ALLEN: Now, this same letter of January 11, 1956, Exhibit 155, does that cover all the protests that were made to Harbor Department expenditures since 1939?

MANSELL: We searched the minutes, Mr. Allen, and if there are any missing, we just couldn't find them. We made a detailed check each week of all the minutes of the Harbor Department for 18 years.

ALLEN: This includes the protest made by Myrtle Gunsell as well as yourself.

MANSELL: Yes, sir, it does.

ALLEN: In fact, all the letters of protest appear to be signed by Myrtle Gunsell.

MANSELL: No, I wouldn't say that.

ALLEN: Well, I will have to look at all of them. Here are a couple at the end with your signature on them. Do you recall any protest that was made to an expenditure of several thousand dollars for the purpose of sending some horses to Mexico City.

MANSELL: Yes, that is in here, Mr. Allen. That is under - I don't know whether horses went, I think people went with them . . .

ALLEN: What number is that under?

MANSELL: That is under October 3, 1946, in which the City Auditor stated, "The attached Voucher No. 273, drawn on the

Harbor Operating Fund in the amount of \$5,000 in favor of the Long Beach Mounted Police, is returned and objected to and disallowed. This is a very unusual expenditure, and I believe the members of the Harbor Board should assume the full responsibility for this claim of \$5,000 for an advertising trip to Mexico City". Now, my understanding, in perusing the minutes, was that the Harbor Board overruled the City Auditor on it inasmuch as there is a contract, which is attached to this document that you have, prepared by the City Attorney with these organizations stating what they would do in the way of advertising for the city.

ALLEN: Have you ever made objections yourself to transfers of gas funds from the Gas Revenue Fund to the city General Purpose Fund?

MANSELL: No, I never have, Mr. Allen, because when I was in office AB 3400 was passed. I came into office in March, 1951. I objected to any transfer being made until the State Legislature approved AB 3400, and after that was approved, after got a superior court ruling that it was constitutional, I felt that was the law.

ALLEN: Did you write a letter to the City Council or make a written protest . . .

MANSELL: No, sir, I didn't. It wasn't necessary because I just simply told them that I wouldn't accept it and it never came down. Had it come down, we would not have done it.

ALLEN: Does the Long Beach Harbor Department make any payments to the Long Beach Chamber of Commerce?

MANSELL: They make payments, Mr. Allen, not to the Chamber of Commerce, but they aid the Chamber of Commerce in the general

city. They, I believe, have a contract with the city and the Chamber of Commerce in regard to advertising. The money that is paid out - and I am giving you my recollection on it without checking it, but I believe that it is paid directly to the firm of Patch and Curtis, advertising people, who promote and advertise the port throughout the United States in various periodicals and so forth. That is a contract approved by the City Attorney's Office and on file at the City Council office.

ALLEN: Money is not paid directly to the Chamber of Commerce?

MANSELL: Not to my recollection. There might have been some in the past, but there's none under this present contract in regard to the advertising since I have been in office.

ALLEN: Was there any paid directly to the Chamber of Commerce this year?

MANSELL: That I couldn't tell you, Mr. Allen. I would have to check it, but to my recollection, if you are speaking on that advertising budget - is that what you are speaking of?

ALLEN: I was just wondering.

MANSELL: Well, if it is the advertising budget, it is my recollection that the payments are made directly to Patch and Curtis.

ALLEN: That is all I have now. Thank you.

CHAIRMAN McFALL: Any other questions of Mr. Mansell? Mr. Works.

WORKS: Mr. Mansell, do you have any comments to make with reference to Exhibit 150, the special communications?

MANSELL: Which one is 150?

WORKS: The special communications to the Harbor Board, and

155, the City Auditor's objections. I ask that question because I believe you said that the picture would not be fully rounded out unless some statement were made as to what was done after those objections were made by the City Auditor. Was I correct in so understanding you?

MANSELL: Well, the position that we took on our objections, our special communications, we had made a summary form for the aid of the committee to show what we were talking about, the action taken, the amount of money recovered, if any, along those lines.

WORKS: May I see it, please?

MANSELL: Oh, it's right here. Do you want the letters of objection? There is 150, and right below it is 151.

WORKS: Do I understand you to say that this will be of aid to the committee in rounding out the picture?

MANSELL: Yes. It is a complete explanation.

WORKS: Now, can you detach this or supply me with another copy of it so that I can offer it in evidence?

MANSELL: Well, it is in evidence with the communications.

WORKS: Oh, I see.

MANSELL: Mr. Allen has those.

WORKS: I misunderstood you. Now, tell me this, isn't it a fact that the Long Beach City Charter provides that the Harbor Department shall advertise the port?

MANSELL: Well, the City Charter carries that, and we have various legal opinions in regard to that in these communications.

WORKS: I see. That's all.

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MANSELL: Well, the City Charter carries that, and we have various legal opinions in regard to that in these communications.

WORKS: I see. That's all.

MANSELL: I have on statement I would like to make, Mr. McFall.

CHAIRMAN McFALL: Yes, sir. Go ahead, Mr. Mansell.

MANSELL: The implication has been made by certain witnesses before this committee that we have taken \$980,000 on the day of the transfer, or on the day that the Supreme Court decision came down. The reason that was done, according to our City Charter, is that we must transfer each quarter the amount of money from the Gas Revenue Fund over to the General Purpose Fund. That was done, I believe, if you remember it was on the 5th, a Tuesday, they ratified the action of the City Accountant on this transfer of March 31st; the minutes of the meeting were put out on the Friday previous to the decision of the Supreme Court, and, finally, when we entered into the stipulation with the Attorney General, all \$980,000 has been repaid to the Gas Revenue Fund. I would like to get the record clear on that because, as City Auditor, I resent the implications that we are all dishonest in Long Beach.

GROVER: Could I ask a question on that, Mr. Mansell?

MANSELL: Yes.

GROVER: You said the transfer was required by the Charter.

MANSELL: Yes, sir.

GROVER: And yet the impounding agreement returns it to the Gas Revenue Fund.

MANSELL: To the Gas Revenue Fund in accordance with the Mallon decision. We got an opinion from the City Attorney in regard to it, and he said that for the time being he felt that the court decision would supersede the requirements.

GROVER: I see. Thank you.

CHAIRMAN McFALL: Any other questions of Mr. Mansell? Thank you sir. Now, Mr. Allen.

ALLEN: Mr. Lamb also has some information and exhibits he was going to produce at the request of the committee.

CHAIRMAN McFALL: Mr. Joseph Lamb.

GROVER: While they are putting the exhibits together, Mr. Chairman, I wonder if we could withdraw Exhibit 87 for identification, which was the Attorney General's report, and substitute therefor that part of it which was read into evidence, and copies of which I have. Since no other part of the exhibit has been used, it isn't necessary for our work.

ALLEN: Well, Mr. Chairman, I am going to object to withdrawing that at all. It is before the committee. Although it is not in evidence, it is in the files of the committee, and I think it should stay there. I don't know what purpose there is in Mr. Grover's request, but I object very strongly. There are a lot of circumstances about that report that have never been disclosed to the public, and I think it should remain in the custody of this committee.

GROVER: Well, I will agree to do it this way then. I mean I would be just as satisfied to have a new exhibit made of that portion which was used in evidence, and have it an exhibit in evidence, which we can use, and it is not just "in custody" but actually an exhibit before the committee. It is just a matter of convenience. The way the report is now, it is and it isn't an exhibit, and if we are going to use it, I would like to have that portion which we can use as an exhibit.

ALLEN: Well, at the time the report was produced, the counsel for Long Beach asked if they had access to it, and Mr. Smith was here and wanted to read it. I certainly think it would impair the usefulness of that part we introduced if any portion of the exhibit were withdrawn. The whole thing should be in custody of the committee, and available to anybody who is interested in this investigation so they can look at it. Maybe other parts of it Mr. Grant would like to call attention of the committee to.

GRANT: May I ask if the exhibit is available to me or will be made available to me.

CHAIRMAN McFALL: Certainly, sir. You are a member of the committee, and anything in the committee files is available to you.

GRANT: Thank you, Mr. Chairman.

CHAIRMAN McFALL: Mr. Works.

WORKS: The City of Long Beach withdraws any request which it made in connection with that exhibit, and we concur with Mr. Grover's proposal, for what our consent is worth. Of course, it is a committee matter. I understand that.

CHAIRMAN McFALL: Thank you, Mr. Works.

GROVER: Mr. Chairman, my proposal at this time, then, in view of Mr. Allen's objection, is simply that we have a new exhibit, the next number in order, not for identification, but an actual exhibit of that portion which was used before the committee.

CHAIRMAN McFALL: For the time being, Mr. Allen's objection will be observed, and perhaps we can discuss the matter without the necessity of recording all this. It doesn't have anything

to do with the committee report, and we will see if we can't work out something on the exhibit, and let's get on to Mr. Lamb's testimony. Mr. Lamb, are you ready, sir? You have certain exhibits, Mr. Lamb?

MR. JOSEPH LAMB: Yes, Mr. McFall. I was requested to obtain certain additional information. I think the request, as far as I am concerned, in regard to the gas contracts was simply as to the date of expiration, but later on, at some juncture, someone requested that we furnish copies of these gas contracts, which, of course, for themselves show the date of expiration, and we have all of them here. There is quite a volume of them and inadvertently there are two so-called "Exhibit A" here that belong with one of the contracts which I am not sufficiently familiar with in this short time to straighten them out.

CHAIRMAN McFALL: Well, perhaps you can assist Mr. Grover later on.

LAMB: I think so.

CHAIRMAN McFALL: The entire exhibit would be called No. 156, and each one of the contracts will be designated "a", "b", "c" and on down.

LAMB: In other words, that is a complete set, but perhaps it is not exactly in order.

CHAIRMAN McFALL: All right, sir. Mr. Grover, you will designate them later as "a", "b" and so forth. Then your next one, Mr. Lamb.

LAMB: We were asked to - I was asked to provide information in regard to what we call the setoffs, or offsets, against the claim of indebtedness from the city to the State by reason of

the dry gas. It was explained to the committee at that time the fact that we would not, probably, be able to furnish it in great detail because it was going to take too long, probably, to get all of that compiled. We have, however, done the best we can in the time allotted, and we do have an exhibit here which I will present at this time that shows in a general way what those are.

CHAIRMAN McFALL: And that will be designated as 157. Yes, Mr. Works.

WORKS: In view of the pendency of the litigation, may it be made perfectly clear that the figures just submitted are purely tentative and subject to revision as preparation for the case proceeds.

CHAIRMAN McFALL: Yes, sir, that is the understanding.

LAMB: Now I was also asked, I believe by Mr. Miller, to provide information as to the purchases of gas which the city had made, and I have here an exhibit which shows those purchases for the period 1938 to 1955.

CHAIRMAN McFALL: That will be designated as 158. Mr. Miller.

MILLER: The amounts paid are on that exhibit as well as the amounts of gas?

LAMB: Yes. They are all shown, Mr. Miller. Now, there was one other thing. I was requested by Mr. Allen to furnish a map showing the location of the meters which register the amount of gas received by the City Gas Department, and I had such a map prepared but we have inadvertently left it some place. We will have to get it, but we will submit that later on.

CHAIRMAN McFALL: Well, that map will be designated as number 158 . . .

GROVER: No. 159.

CHAIRMAN McFALL: Mr. Grover could get it from you later on.

LAMB: We will see that it is supplied to you. I think that is all.

CHAIRMAN McFALL: Now, are there any questions of Mr. Lamb at this time? Mr. Weinberger.

ASSEMBLYMAN CASPAR WEINBERGER: This is probably not completely pertinent to your previous testimony, but I was wondering, Mr. Lamb, if you are able to tell me what the 60 per cent of the Gas Department profits will amount to that are being impounded under this arrangement which the Attorney General spoke of yesterday.

LAMB: I am sorry, Mr. Weinberger, I really have no information on that. I can only say this, that at the last time we checked with the Gas Department, the ratio of gas from these tidelands to gas - the total amount of gas being used was 40 per cent tideland and 60 per cent from other sources, so that 60 per cent represents an excess over the amount that we are using regularly of tideland gas.

WEINBERGER: Yes. Well, the Attorney General's statement yesterday spoke of the impounding stipulation as contemplating holding 60 per cent of the Gas Department profits from January 1, 1955, and my question was just if you knew what that amounted to in dollars.

LAMB: No, I do not.

CHAIRMAN McFALL: Any further questions of Mr. Lamb? All

right, Mr. Lamb. Thank you very much. Now, do we have any further witnesses?

ALLEN: Is Mr. Freeman Castle here?

MILLER: Mr. Chairman, before he is called, I wonder if we could get any of that information that was just requested by Mr. Weinberger from any other representative of Long Beach that might be in the audience.

CHAIRMAN McFALL: Mr. Mansell?

MANSELL: What was that question?

CHAIRMAN McFALL: Would you step up, Mr. Mansell, so we can get you on that record?

WEINBERGER: Exhibit 132, Mr. Mansell, was the Attorney General's statement yesterday in which he discussed the impounding stipulation that was being concluded with the City of Long Beach and the Attorney General's Office, and in that he states that 60 per cent of the Gas Department profits are contemplated to be impounded retroactive to January 1, 1955. The question is, do you have any idea what that amounts to in dollars and cents?

MANSELL: \$2,053,000 from January 1, 1955 to December 31, 1955, so for the year period the State has accumulated \$2,053,000 under that arrangement.

WEINBERGER: Under that for the first year?

MANSELL: Yes.

WEINBERGER: Has that been a fairly constant amount, do you know? Is that what might be contemplated to be the future?

MANSELL: I would say yes. We are giving you our experience now, and for a definite detail I would rather have you talk to the gas superintendent, but now, in our cold months, it is coming

in, naturally, a lot faster than it does in the others, but I would say that would be a fair estimate on a 60 per cent basis.

WEINBERGER: Approximately two million a year?

MANSELL: Yes, sir.

CHAIRMAN McFALL: Next witness.

ALLEN: Mr. Castle.

CHAIRMAN McFALL: Would you state your name please, sir?

MR. FREEMAN CASTLE: Freeman L. Castle.

CHAIRMAN McFALL: And where do you reside, sir?

CASTLE: Long Beach, California

(Witness sworn by Chairman McFall)

ALLEN: How do you spell your last name, Mr. Castle?

CASTLE: Not like it was on the subpoena. It is C-a-s-t-l-e.

ALLEN: And you reside in Long Beach?

CASTLE: Yes, sir.

ALLEN: And your occupation, sir?

CASTLE: Chief Deputy City Auditor, City of Long Beach.

ALLEN: And how long have you held that position?

CASTLE: I believe it was 1945 that I was appointed to the position of Chief Deputy.

ALLEN: And was that under Myrtle Gunsell?

CASTLE: Yes, sir.

ALLEN: And you continued through her term of office and also under Mr. Mansell?

CASTLE: Yes, I carried over under Mr. Mansell.

ALLEN: Were you here yesterday?

CASTLE: No, sir.

ALLEN: Are you familiar with the operation out in the

Alamitos area of a dump by Mr. Middough?

CASTLE: Yes, I know where it is.

ALLEN: Did the city have a contract with Mr. Middough delivering rubbish out there?

CASTLE: No, the city had a contract with the City Dump and Salvage Company, and I believe Mr. Middough is the manager.

ALLEN: Could you describe this contract to us, what the rate of payment was?

CASTLE: Well, to the best of my recollection, I believe the first contract was entered into about 1948 or '49, and the prescribed rates have varied from \$1.40, I believe, down to the present price of \$1.05 a ton for disposing of city rubbish at the City Dump and Salvage site.

ALLEN: And is that rubbish hauled out there in city trucks?

CASTLE: Yes, sir.

ALLEN: And is that rubbish weighed?

CASTLE: Yes. We have a city weighmaster on the spot who weighs each truck and keeps a record of it as the rubbish is brought in.

ALLEN: Has that been done since the rubbish dumping out there started?

CASTLE: I believe we have always had a weighmaster out there, yes, sir.

ALLEN: Do you know what the rate of dumping per month has been?

CASTLE: I believe the average price being paid at this time would be around \$6,100 a month, at the rate of \$1.05 per ton.

ALLEN: And has it varied in past years more less than that?

CASTLE: I would say it has been fairly constant around that price.

ALLEN: Mr. Castle, I will show you a copy of one of the exhibits that has been introduced to this committee. It is Exhibit No. 110, a report to the people by Carl B. Wirsching, City Manager. Were you in the City Auditor's Office in 1949?

CASTLE: Yes, I was there.

ALLEN: In looking at this document, starting at the top of page 5, you will find reference to some arrangements with the gas companies.

CASTLE: You mean the portion of the statement which is in heavy type?

ALLEN: And immediately following he talks about arrangements that were made to save the city a thousand dollars a day, or some such thing.

CASTLE: Yes, I had heard that before.

ALLEN: Are you familiar with that transaction?

CASTLE: Yes, sir.

ALLEN: Can you describe to us just what the setup was with the gas companies at that time, before and after this work was done, that Mr. Wirsching speaks of?

CASTLE: Let me go back just a minute to see what the preceding statement is. Prior to 1947 and '48 the city was disposing of its dry gas by process of letting it go back to the Associates when the city mains were filled. When the holders were filled and the lines were filled, well, instructions were given to shut off any more gas to the city because we couldn't

handle it. We lacked compression facilities or storage space for this gas. Mr. Wirsching states in his letter to the public that he had investigated this situation and had caused a new arrangement to come about. I take exception to that because I don't believe that Mr. Wirsching knew anything about this.

I returned from the Army Air Force in 1945, and one of my first audits was that of the Gas Department. In studying the situation of dry gas, I researched the records and found that certain mechanics had been made available to the city to dispose of this dry gas for the account of the city rather than having it going back to the Associates who would take their commission and return the 75 per cent balance to the Harbor Department. I therefore carried this as far as I could with the consent and full acquiescence of Miss Gunsell, who was then the City Auditor, until I reached a point in the investigation where I figured it was beyond my scope as an auditor, that it was an engineering problem. I thereupon called it to the attention of one of the former councilmen, namely Frances Crawford who, I believe, has testified at this hearing, and he assured me that something would be done about it. However, nothing happened, and during 1947, when the city redistricted the councilmanic zones, a new council came into office, among whom was one man who is still serving, Raymond C. Kealer, who is a qualified petroleum engineer, and I took it to him. I told him what I had done and gave him my complete file on the case, and he stepped into the picture and investigated it and we brought about a new contractual arrangement with the Southern California Edison Company whereby this gas was sold for the account of the city, thereby eliminating

the outside companies who had shared in these profits to that date. Again, I consulted with Miss Gunsell on this action, and it was done with her complete approval, and I had reached a point where I figured I could not proceed on my own, so Mr. Kealer carried through, and I think he very satisfactorily solved the problem at that time.

Mr. Wirsching subsequently claimed credit for this transaction in his open letter to the people, but that was not the case.

ALLEN: Do we have that Southern California contract there, Mr. Grover? I want to look at the date on it.

GROVER: It will take me a minute to find it.

ALLEN: All right. Now, before the Southern California Edison contract was entered into, do I understand your testimony that the cities were turning this gas back to the Associates who were processing it and paying, as a result, a commission to Long Beach Oil Development Company on that?

CASTLE: Yes, the taking of the gas was left to the complete discretion of the Gas Department management. As I said before, we had no facilities for storage of the gas, and when the mains and lines were filled, they had no recourse but to turn it back and ask the Associates to find a purchaser for that gas, in which event the purchaser received 25 per cent as a brokerage fee, 75 per cent of the proceeds went back to the Harbor Department, of which the Long Beach Oil Development Company obtained 14.45 per cent.

GROVER: Did we have it as an exhibit? We had the Wilmington contracts.

ALLEN: Well, we have had a number of gas contracts just handed to the committee by Mr. Lamb. I just wondered if the Southern California Edison Company contract was in there. Do you remember the date of that contract, Mr. Castle?

CASTLE: I believe the contract with Southern-Cal Edison was entered into during 1947, about June.

ALLEN: Right around that time, and without looking at the exhibits, you couldn't state exactly, but there was a sharp increase in the volume of gas reported. Do you know anything about that?

CASTLE: No, I don't believe that's true. There was an increase in the volume of gas because the Richfield Corporation had started developing at about that time; but the exhibits that this committee has before it deal with dry gas sold for the account of the city, namely, deliveries to the Gas Department. Now the gas was not physically delivered to the Gas Department for all the MCF's reported, but they were sold for the account of the city, and it was after this new arrangement with the Southern-Cal Edison Company that the gas sales increased, and that again was in 1947 after we brought about this new contract.

ALLEN: You mean previously gas that had been going to these other purchasers is not included in the figures that we have.

CASTLE: No. That's right. The gas had been sold by the Associates, and the net proceeds of 75 per cent were paid over to the Harbor Department, and Long Beach Development got 14.45 per cent, so it would not appear on the general city records.

ALLEN: It wouldn't show on the records of the City Gas Department?

CASTLE: No, it would show on the Lomita-Signal-Wilmington

operating plant reports.

ALLEN: Now, had the city been paying a standby charge gas service up to some point there?

CASTLE: I believe the city has had some sort of a standby contract ever since it started operating its municipal gas department.

ALLEN: Well, in Mr. Wirsching's report he also refers to - at the top of page 5 - a contract calling for payment by the city approximately \$1,000 a day to three locally-owned gasoline companies for gas the city did not need. Do you recall such a problem?

CASTLE: I can't vouch for the accuracy of that figure at all. I don't recollect. I know we had a standby arrangement. Again, I must point out that during that time the city never did have facilities for storage of this gas. We had no compressors, and the only gas the city could hold was that which we could put in the holders and in the gas lines. Therefore, ostensibly the purpose of the standby contract would be to assure the public - the citizens of Long Beach - that if we had a cold spell or needed gas, we would have a source of supply, and there are many other gas consumers in the area. Southern California Edison is one of them, and the Pacific Lighting Company, I imagine, obtains gas, and they have other customers, so the city, in order to have this gas supply in case of dire need, would have to enter into this standby contract. That has been my understanding of the reason for such a contract. It is just insurance.

ALLEN: You don't remember an occasion where the city was paying \$346,000 a year for standby service for gas it did not get, which was stopped around 1947 or '48?

CASTLE: I don't recall the amounts that were paid. I know that the city had to pay for gas whether it took it or not sort of as insurance that we could get it if we needed it.

ALLEN: Is the city still doing that?

CASTLE: We do have a contract for the purchase of gas, although at this time I wouldn't be in a position to say just what the provisions of that contract are. I know we have an arrangement where we obtain gas from Huntington Beach, but whether or not we are paying a standby fee and not getting gas, I wouldn't be in a position to say unless I looked at the contract.

ALLEN: I believe that is all.

CHAIRMAN McFALL: Any further questions of Mr. Castle. All right, do you have any questions, Mr. Works, of Mr. Castle?

WORKS: No, Mr. Chairman. I take it that these various witnesses who have been subpoenaed are excused unless some notation to the contrary.

CHAIRMAN McFALL: Yes, sir, that is right. They are excused. Now, do we have anything further, Mr. Allen?

ALLEN: Yes, Mr. Chairman, I have a few documents I would like to put in. This pertains to the making or entering into of the Long Beach Oil Development contract. These documents are not intended as a substitute for witnesses, but they are material, and some of the witnesses I had hoped to have present are, unfortunately, not here.

Now, referring to these documents, I would like to point out first of all, and I will show this by evidence a little later on, that in December, 1938, the Long Beach Harbor Commission advertised for bids on Parcels W, X, Y, and Z for oil contracts. The

bid opening date was January 11, 1939. This is an important date to remember in this matter. On January 11, 1939, the bids were opened and referred by the Harbor Commission to Mr. E. R. Stanley for a report or analysis of the bids. I have here a copy of that which has been produced by the Harbor Commission. It is in the form of a letter dated January 17, 1939, addressed to the Board of Harbor Commissioners, City of Long Beach, signed by E. R. Stanley, and it lists all the bids that had been received January 11, or opened that date, and the Long Beach Oil Development Company does not appear as one of the bidders. The letter concludes with the statement that the highest total for all four parcels is obtained from this combination of W, X, Y, and Z bid of W. E. Ramsey and Albert Stevens, and the analysis shows that this particular expert figured that that would produce an average 51 per cent royalty to the city. There were different royalties set forth in the bid, but that is just Mr. Stanley's conclusion. I would like to offer that letter as the next exhibit, please.

CHAIRMAN McFALL: No. 160.

ALLEN: Now I have here, also, a full page advertisement which appeared in the Morning Sun, Long Beach, California, Tuesday, January 17, 1939. I am not going to read the whole thing but it says, "Act today. Stop the oil land grab in the harbor. Protest now before it is too late. Present bids can be rejected. Give local men and companies a chance. Give Long Beach a square deal". It is signed Harbor Development League, 243 East First Street, Long Beach. I would like to offer that as the next exhibit.

CHAIRMAN McFALL: No. 161.

ALLEN: And I have another full page ad which appeared the

previous date of the last one in the Morning Sun, Long Beach, California, Monday, January 16, 1939. "Read why you should support your city and port officials in the battle to safeguard community interests against promoters. Do you want city oil worth many millions sold at cut-rate prices? Citizens of Long Beach have millions at stake in the development of the city's land and the harbor district oil fields. These millions must be safeguarded".

This is a rather long statement. Among other things it says, "Does Long Beach want to sell its fabulous heritage of oil valued at many millions of dollars at cut-rate prices to benefit a few promoters. We think not. The undersigned are independent oil producers who have no interest in any city wells and who are not bidding on the port development". There are some signatures at the bottom, including that of Arthur N. MacCrate. Exhibits produced by Mr. Annand yesterday saw that Arthur N. MacCrate . . .

CHAIRMAN McFALL: Wait a minute now. Let's number that. That is 162.

ALLEN: I will point out that one of the exhibits produced yesterday by Mr. Annand shows that Arthur N. MacCrate, one of the stockholders in the Long Beach Oil Development Company, on his stock put up \$10,0000 and received dividends of \$613,500.

And I have next another advertisement, a half page appearing in the same paper, same date, Morning Sun, Long Beach, California, Monday, January 16, 1939, attacking the bids up to that point, this one signed by the Long Beach Harbor Development Committee. I would like to put that in the record.

CHAIRMAN McFALL: No. 163. That other item you spoke of, Mr.

Allen, is a quotation from another exhibit that previously has been admitted, isn't that correct?

ALLEN: That's correct. I have next a copy of the minutes of the regular meeting of the Board of Harbor Commissioners, January 25, 1939. On the last page of the last resolution, "Commissioner Hossam moved, seconded by Mr. Miller, that the proposal of Long Beach Oil Development Company, for the development for oil for parcels W, X, Y, and Z, Outer Harbor, Long Beach, California, be referred to Johnson and Cutler, petroleum engineers, and to E. R. Stanley, Petroleum Production Engineer, for analysis and report, and to the City Attorney for report as to the legal aspects of the proposal at the earliest possible moment. Carried by the following vote: four ayes and one no. Upon motion duly made and seconded and unanimously carried, the meeting was adjourned until Friday, January 27, 1939, at 2:00 o'clock p.m." I would like to offer that as the next exhibit.

CHAIRMAN McFALL: No. 164.

ALLEN: I have next the minutes of the meeting which followed. It was held by the Board of Harbor Commissioners, January 27, 1939, at 2:00 o'clock p.m. The following action is reported:

"Mr. Clark moved, seconded by Commissioner Hoffman, that the City Attorney be and is hereby authorized and directed to prepare a resolution awarding to W. E. Ramsey and Albert Stevens contracts in accordance with the combination bid on parcels W, X, Y, and Z, Outer Harbor, Long Beach, California. Carried by the following vote: ayes, Commissioners Clark, Hoffman, Miller; noes, Hossam and Stevens". Three to two. That's all for that.

CHAIRMAN McFALL: No. 165.

ALLEN: Now, the last exhibit refers to a meeting held at 2:00 o'clock in the afternoon of January 27. I have as the next exhibit an extract from minutes of the City Council held that same day, starting at 10:30 o'clock a.m. The purpose of the extract is to show the adjournment, which was to 4:00 o'clock p.m., January 27, 1939. I offer that as the next exhibit.

CHAIRMAN McFALL: No. 166.

ALLEN: The next exhibit is the minutes of the City Council at the meeting following, January 27, 1939. It shows the City Council met at 6:35 p.m. and adjourned at 6:36 p.m. I offer that as the next exhibit. No business was transacted.

CHAIRMAN McFALL: No. 167.

ALLEN: The next exhibit is the following day, January 28, 1939, minutes of the City Council, held Saturday morning, January 28, 1939, at 11:35 a.m. It shows the following action: "Councilman Fletcher moved, seconded by Councilman Kirkman, that the City Clerk be and is hereby authorized and directed to advise the Board of Harbor Commissioners that if the Board of Harbor Commissioners accepts the combination bid of W. E. Ramsey and Albert Stevens covering parcels W, X, Y, and Z, and awards contracts to said W. E. Ramsey and Albert Stevens covering each of said respective parcels, then, if and when such agreements or contracts are presented to the City Council, the City Council will disapprove such agreements or contracts. Carried by the following vote: Six ayes; noes, none; two absent". I would like to offer that as the next exhibit.

CHAIRMAN McFALL: No. 168. Now, these are photostats of actual city minutes, are they?

ALLEN: Yes. They are not certified, but they are taken from either minutes produced at that time by the Harbor Commission or certified copies that were prepared.

CHAIRMAN McFALL: This No. 165 is a mimeographed one.

ALLEN: That's correct.

CHAIRMAN McFALL: That's an exact copy, is it?

ALLEN: That's my understanding. It was produced at that time.

The next exhibit is the minutes of the Board of Harbor Commissioners, Wednesday, February 1, 1939, and it shows the following action: "Mr. Hossam moved, seconded by Commissioner Stevens, that the action taken by this Board at its adjourned regular meeting held January 27, 1939, in authorizing and directing the City Attorney to prepare a resolution awarding to W. E. Ramsey and Albert Stevens contracts in accordance with the combination bid on parcels W, X, Y, and Z, Outer Harbor, Long Beach, California, be rescinded". It carried by the following vote: three ayes; one no, one absent. And the following action shows that the Harbor Commission votes to reject all the bids that had been received and returned the checks to the bidders. I would like to offer that as the next exhibit.

CHAIRMAN McFALL: No. 169.

ALLEN: Then I have minutes of the meeting of the Board of Harbor Commissioners, Wednesday, February 8, 1939, which shows the following: "In connection with the action of the Board of Harbor Commissioners at its meeting held February 1, 1939, Commissioners Clark and Hoffman requested that the record show the reasons Commissioner Miller's vote to rescind authorization to the

City Attorney to draw a resolution awarding to W. E. Ramsey and Albert Stevens contracts in accordance with the combination bid on Parcels W, X, Y, and Z, Outer Harbor, Long Beach, California, as follows, to wit: "I believe that the city should keep faith with bidders by awarding to the highest bidder after inviting bidders from all over the United States. However, I see no good purpose to be served by creating a deadlock inasmuch as the City Council has notified the Board in writing that the award is disapproved, as the City Council may legally do".

Then on the last page of this same document is the following: "Commissioner Hoffman moved, seconded by Commissioner Hossam, that a resume be prepared by E. R. Stanley, Petroleum Production Engineers, with the assistance of Harry R. Johnson and Willard W. Cutler, Jr. on the advisability and feasibility and advantages and disadvantages of the city drilling their own wells in the Outer Harbor on a turnkey basis. Carried by the following vote: five ayes; noes none." I would like to offer that as the next exhibit.

CHAIRMAN McFALL: No. 170.

ALLEN: Then the minutes of the City Council, Special Meeting, February 21, 1939, which shows action by the City Manager, approved by the City Council at this Special Meeting, dismissing from the Harbor Commission Frederick A. Miller and Glen L. Clark, who are two of the three who voted to award the Ramsey-Stevens contract. I would like to offer that as the next exhibit.

CHAIRMAN McFALL: No. 171.

ALLEN: Then the minutes of the Board of Harbor Commissioners, February 23, 1939, which shows a wrangle over the previous action

rescinding the instructions to the City Attorney to prepare a contract on the Ramsey-Stevens bid. It is lengthy, and I am not going to read it all, so, parenthetically, this parliamentary wrangle continued throughout the minutes of the Harbor Commission over quite a number of meetings.

CHAIRMAN McFALL: That is No. 172.

ALLEN: This same document shows the following: "Commissioner Hoffman moved, seconded by Commissioner Hossam, that the report of E. R. Stanley, Petroleum Production Engineer, and Harry R. Johnson and Willard W. Cutler, Jr., Petroleum Engineers, dated February 21, 1939, on the matter of the advantages and disadvantages of the city drilling its own wells on a turnkey basis be received and placed on file. It carried by the following vote: Hossam, Wallace, Hoffman, Stevens". Mr. Wallace is a new Harbor Commissioner. He replaced one of the others.

This same document also shows action by the Harbor Commission starting in publication of a new notice inviting bids on those parcels of land. I would like to offer that as the next exhibit.

CHAIRMAN McFALL: That is No. 172.

ALLEN: Then the next document is minutes of the City Council, March 7, 1939. It shows a communication signed by E. E. Piles, Chairman, Emergency Executive Committee of Independent Oil Operators. I would just like to offer that as the next exhibit.

CHAIRMAN McFALL: No. 173.

ALLEN: Now, I would also like to say that we have before this committee as exhibits the Long Beach Oil Development contracts on these four parcels, contracts dated March 15, 1939.

The next exhibit is from the Long Beach Independent, a photo-static copy of the front page, second page, fourth page of that issue. The issue was dated March 20, 1939, which is just after this L.B.O.D. contract was signed. The headline is: "COST PLUS CONTRACT MADE. CITY'S RIGHTS UNGUARDED". And another headline: "CITY'S NEW OIL COMPROMISE. HUGE PAYROLL BOOST IS MADE". There are some lengthy articles here which I am not going to read unless somebody asks for it, but in one of these articles on page 1 it says "After making this very careful analysis and study of the entire situation, this newspaper came to the conclusion that the City of Long Beach can develop its own oil property in the harbor district by contracting with responsible oil development companies, residents of the City of Long Beach thoroughly experienced for the drilling of these wells for a definite price at the bids let by competitive bidding, for turnkey jobs, relieving the city of all responsibility and liability until the wells are placed on production and the oil turned into the tanks". That's in quotes, page 1; and on page - pages one and two - are listed sixteen reasons why the Long Beach Oil Development contracts are no good. And then continuing from the same story on page 2, "The monopolistic press of Long Beach is apparently well pleased with these contracts, and according to their issue of March 16, 1939, they have been advised by the Standard Oil Company that their columns will be used exclusively, or extensively, for advertising the sale of Standard Oil Products in this community. The Long Beach Independent is working solely for the interests of the taxpayers of Long Beach and has absolutely no personal direct interest in this contract or any of the parties thereto. We sincerely fear that the taxpayers

of this city have been 'sold down the river' to the tune of many millions of dollars, and that they will realize from the oil which they now own only a small percentage of its value. We suggest that you taxpayers retain a copy of this article for future records". Then, on page 4, same paper, same issue, "Less than a week ago the highly paid geologists of the Harbor Board, as well as many prominent city officials, told proponents public operation of the rich city-owned oil properties that civil service rules would prohibit such operation and that it would require a large staff of city employees. This statement was made as justification for not-consideration of city directed and operated oil drilling. Four days ago the the Harbor Commission approved an increase in payrolls for thirty-four new employees that will range from between \$56,000 and \$85,000 in additional cost to taxpayers in order to supervise the simple cost-plus plan that was to relieve the city of all these burdens. From informed sources, it was learned that Washington officials will inquire deeply into the conduct of local harbor oil development, particularly the delay in the city's use of the land. These same sources predict openly that the handling of the harbor oil matter has played directly into the hands of . . . that the city's position has become greatly weakened. These five developments marked a chapter in the history of harbor oil that exceeded all of the preceding developments in significance and evident design on the part of public officials to ride roughshod over any type of character of public opposition or inquiry. From quarters throughout the city came rumblings of open revolt against what was termed the most 'arrogant disregard of public interest ever manifested by office holders'." Threats of

legal action were heard from widely divergent groups. Taxpayers were bitter over the civil service call for 'thirty-four new employees' as the nucleus of a harbor oil department". Well, it continues in this same vein. I am not going to read it all. I would like to offer that as the next exhibit.

CHAIRMAN McFALL: No. 174.

ALLEN: And the last one of this series is from page 3 of the Long Beach Independent, July 7, 1940. There is an item in here which, again, I will not read unless it is requested, but I could describe it as being a very friendly article toward the harbor oil operations. It is a very nice story.

CHAIRMAN McFALL: That would be 175.

ALLEN: The next exhibit is a certified copy of the deposition of Will J. Reid in the Superior Court of the State of California in and for the County of Los Angeles, case of W. E. Ramsey and Albert Stevens, Plaintiffs, against Standard Oil Company of California. There are some other defendants who are also parties, No. 463093. The deposition is dated Los Angeles, California, Tuesday, November 17, 1942.

CHAIRMAN McFALL: No. 176.

ALLEN: I would like to point out that we have been trying to serve a subpoena on Mr. Reid to appear here today. Unfortunately this gentleman, who is a very fine person, left for Mexico about the time we were trying to subpoena him. I don't infer any criticism of him, but just to point out that it was not possible to get him here this morning, and I hope, at some future meeting of the committee, that we can have the benefit of his testimony in person.

CHAIRMAN McFALL: Well, some time after the March session we are

going to have another meeting, or meetings, and perhaps it will be possible for Mr. Reid to come at that time.

ALLEN: I think so. We will have him come before the committee. I don't really think there is any particular problem there, but regardless of that I would like the indulgence of the committee in reading some parts in this deposition. I am not going to try to read the whole thing, but the whole deposition is an exhibit, and if Mr. Grant or Mr. Works want me to read other parts, why, of course, I will read it. It starts at page 3, line 1:

WILL J. REID, one of the defendants, called as a witness on behalf of the plaintiffs, under Section 2055 of the Code of Civil Procedure, being first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. PRESTON:

Q Mr. Reid, you reside in Long Beach, I believe?

A Yes, sir.

Q How long have you lived in that community?

A 31 years this month.

Q You are, therefore, well acquainted, generally speaking, in that vicinity?

A Yes, sir.

Q In the fall of 1938, you, of course, were living there then?

A Yes.

Q And were you acquainted with the members of the Board of Harbor Commissioners of that city at that time?

A Three of them.

Q What three?

Q What three?

A Mr. Hosson, Mr. Clark, and Mr. I. N. Stevens.

Q You had no personal acquaintance with any of the remaining members of the board at that time?

A No, sir.

Q Were you a neighbor of Mr. Stevens?

A We lived less than two blocks from each other.

Q It was about that distance, was it?

A Yes.

Q Were you also acquainted at that period with the members of the City Council, and if not with all of them, state the ones with whom you were well acquainted?

A The Long Beach City Council has nine members and I knew four of them. A fifth one I had had a telephone acquaintance with.

Q Well, give us those names, will you, the names of the four first and then the fifth last?

A Mel Campbell, Dr. Kirkland -- I have forgotten who they were.

Q Who the four were?

A Yes.

Q I'm sorry I can't help you.

A I had a telephone acquaintance with Mr. Fletcher who was a member of the council.

Q Mr. Barnes?

A I knew Mr. Barnes, Mr. Frank Barnes.

Q And a Mr. Shinner?

A And Mr. John Shinner. Those are the four I knew.

Q Those are the four you knew; and Kirkland, Barnes and Shinner

comprised what is known as the Oil Committee of the Council, did they not?

A I don't recall.

Q Do you know whether or not they had a committee known as the Oil Committee?

A No.

Q Were you associated in business with either of the three men whose names I have just mentioned?

A No.

Q. Were you associated in business with any member of the City Council?

A No.

Q Of the Harbor Board?

A No, sir.

Q In 1938, what was your relation to the Hancock Oil Company?

A President.

Q And you are such now?

A Yes, sir.

Q And was the Hancock Oil Company associated in business at that time with any other corporation in the oil production work?

A Yes, sir.

Q What were they, what were the other companies?

A We were associated with the Bush Oil Company in operations at Santa Maria. We were associated with the Signal Oil Company in operations at Huntington Beach. We had some minor business relations, where it concerned one well or in one instance, I think, five wells, with some of the smaller producers.

Q Were you associated in any with the Standard Oil Company at that time? I am talking about the fall of 1938.

A No, sir.

Q Would you make the same answer with reference to the Richfield?

A Yes.

Q And the Union?

A Yes.

Q And General Petroleum?

A Yes, sir.

Q And Shell?

A Yes, sir.

Q Tidwater Associated?

A Yes, sir.

Q Was the Hancock Oil Company what is known as a producing company, as distinguished from . . .

A No. We were known as a . . .

Q An independent?

A An independent, wholly integrated company.

Q An independent, wholly integrated company?

A Yes.

Q And an integrated company means what?

A We engaged in all of the customary things. We produced, we refined, we marketed, we exported.

Q Did you own any pipelines?

A Yes.

Q How many integrated companies, so-called, were operating in the field known as the Wilmington Oil Field in the fall of 1938,

to your knowledge?

A That is a difficult question for me to answer.

Q Well, give the names of those you remember then, please.

A The Richfield was operating. The General Petroleum was operating.

Q The Standard was operating, too, was it?

A I'm not sure - I know they were not operating. They may have been purchasing some oil.

Q Can you name any others?

A Now, you speak of the major companies, or any . . .

Q What you call the integrated companies.

A I see. Signal was operating.

Q Union?

A In the fall of 1938 I don't believe Signal had commenced to operate.

Q You don't believe - what was that answer, Mr. Reporter?
(Answer read)

A Was your question the fall of 1938?

Q The fall of 1938. Of course, that would extend into the spring of 1939, too.

A I believe it was 1939 before the Signal commenced to operate.

Q One of my questions was was the Union operating also?

A No, sir.

Q Was the Tidewater Associated?

A No, sir.

Q In the fall of 1938, and by that I mean from say September until the end of that year, how many companies had what is known as

posted prices in this field, giving their names?

A I can't positively say. I think that the Richfield was posting. I think that the General Petroleum was posting.

Q What about the Standard?

A I don't believe it is the custom for the Standard to post prices until they are purchasers, and I'm not sure they were purchasers in the fall of 1938.

Q Well, have you named all that you can recall that had posted prices in this field?

A Yes, sir.

Q Were you at this time, in the fall of 1938, acquainted with the lands known in this record as parcels W, X, Y and Z, called outer harbor lands of the City of Long Beach?

A What do you mean by your question, judge?

Q Well, you knew there were such tracts of land?

A I knew there were in existence such tracts of land.

Q You knew they were supposed to be all oil bearing lands, did you?

A No.

Q You didn't know that?

A No.

Q Well, when did you first learn that they were supposed to be oil bearing lands?

A I think that in the fall of 1938 I knew or assumed that a portion of them were oil bearing.

Q Now, "or assumed". Had you had any access to any engineering data on the subject?

A No, sir.

Q Had you had any geological reports compiled on these lands?

A No, sir.

Q Had you seen such reports compiled by others?

A No, sir.

Q Well, were you acquainted with the fact that the Board of Harbor Commissioners of the City of Long Beach in the fall of 1938 were taking steps to secure contracts for the drilling of these lands for the production of oil and gas and other hydrocarbon substances?

A Yes.

Q When did that matter first come to your notice?

A I don't recall the exact time.

Q Well, do you remember an invitation for bids in the fall of 1938?

A Yes.

Q Do you remember more than one?

A No.

Q Do you not recall that one was made as of December 16, 1938, and a later one as of December 30, 1938?

A I don't recall.

Q You don't recall that?

A No.

Q Did you know that an invitation for bids had been made to be opened on January 11, 1939?

A Yes, sir.

Q When did you first learn that?

A I don't know the exact date. I suppose it was in the month of December.

Q Well, didn't you - isn't this transaction rather vivid in your memory, as to what you did and what took place within your knowledge at that time?

A Fairly so.

Q Fairly so?

A Yes.

Q Well, when did you first become interested, if at all, in securing a contract for yourself or for persons with whom you were associated, concerning these lands for the production of oil and gas?

A In December, 1938.

Q About what time in December, would you say?

A As I recall, about mid-December.

Q Mid-December?

A Yes.

Q What attracted your attention to these lands at that time, if you recall?

A One of the members of City Council, at least one of the members, and one or possibly two members of the Harbor Commission had called me, I think, prior to the time they advertised for bids, to tell me they were going to and to ask if our company would bid.

Q Referring then to the Hancock Oil Company?

A Yes.

Q Which member of the City Council was that?

A Dr. Kirkland.

Q Which members of the Board of Harbor Commissioners was it?

A Mr. Stevens and Mr. Hosson.

Q Mr. Stevens and Mr. Hosson?

A Yes.

Q And was that, as you remember it now, the beginning of your interest in the lands for production of oil?

A No.

Q What transpired prior to that time that attracted your attention and caused you to become interested in these lands?

A Our company were operators in the Harbor and we had acreage offsetting the city property, and we had always been interested in the production of oil from the city property, as offset owners.

Q As offset owners?

A. Yes.

Q And that interest had been in existence for about how many months or years?

A We made our own first completion in February, 1937.

Q 1937?

A Yes.

Q You drilled some wells on some lands then that lay north of these lands?

A Yes.

Q And lands which would be called an offset area to the city lands, parcels W, X, Y and Z?

A Yes, sir.

Q And for that reason you were interested in what was going on on those lands?

A Yes

Q Whether it was of your own works or that of someone else?

A Did you say whether it was our own work . . .

Q Whether it was your own or someone else's, you would be interested to see what was going on, whether you were personally involved in the transaction or not?

A As operators in the district, yes.

Q The lands you were operating on that you say you drilled your first wells on about 1937, does that property belong to the city, too?

A No.

Q That is privately owned property?

A Yes.

Q And when you talk about that area, you mean the actions of the Hancock Oil Company?

A Yes.

Q Well, then, when would you say that you first became interested in these lands looking to the development of them by a concern in which you would be interested?

A About mid-December, 1938.

Q And that is following these telephone calls or talks that you have referred to?

A Yes.

Q Did you see the invitation for bids?

A No.

Q Did you see the form of contract?

A No.

Q Did you ever see the invitation for bids?

A I don't recall that I ever did.

MR. MORROW: You are referring to the December 30th now?

MR. PRESTON: Yes.

Q BY MR. PRESTON: Did you see the form of contract called for in the invitation of December 30, 1938?

A No.

Q Are you sure of that, Mr. Reid?

A Yes.

Q Did you ever see the contract called for in the invitation of December 30, 1938?

A No.

Q What?

A No.

Q Well, didn't you write a letter on January 24, 1938, that I asked your attorney to bring, in which you recite that you have studied the contract?

A On what date?

Q January 24, 1938?

A Yes

Q How do you reconcile that with the statement you have just made?

MR. MORROW: We had better have the letter, hand't we?

MR. PRESTON: Yes, if you have got it.

MR. MORROW: We made copies . . .

MR. PRESTON: Did I say 1938? I mean 1939, Mr. Reporter.

MR. MORROW: Yes. We have made copies, judge, if you want them.

MR. PRESTON: All right, thanks.

Q BY MR. PRESTON: Your counsel has produced and handed to me, - your counsel, Mr. Morrow - what purports to be and what

undoubtedly is a copy of your letter of January 24, 1939, to which is attached an offer or bid, both of which bear your signature as president of the Long Beach Oil Development Company. Do you recall those two documents?

A Yes.

Q Well, then, did you write those - did you compile the contents of those documents?

A Insofar as the terms of the proposal are concerned, I had to do with the compilation.

Q Who collaborated with you in the compilation of this letter or this offer?

A The attorneys for our company, Signal Oil Company, Standard Oil Company (he has here "and Jergins Trust" crossed out and initialed). I don't recall whether the Macrate attorneys were there or not.

Q Where were these documents compiled and signed?

A In the office of the Signal Oil Company.

Q At what place?

A In Los Angeles.

Q Do you remember the building or room number?

A Well, it is known as the Signal Building on West 7th Street.

Q Who was present that you recall at the time this was made up?

A Mr. March of the Signal Oil Company.

Q Giving us the first name or initials?

A Harry.

Q H. J. March?

A H. J. March, yes; Mr. Mosher, president of the Signal Oil Company.

Q S. B. Mosher?

A Yes; Mr. Howard Marshall of the Standard Oil Company.

MR. MORROW: J. Howard Marshall.

Q BY MR. PRESTON: Mr. J. Howard Marshall of the Standard Oil Company?

A Yes.

Q Who else?

A Mr. George Schroeder of the Standard Oil Company. I think Mr. Larzelere was there.

Q With what company was he associated?

A Signal.

Q And have you mentioned any attorneys yet?

A Mr. Larzelere is an attorney, Mr. March is an attorney, Mr. Marshall is an attorney, Mr. Schroeder is an attorney. Were you there, Mark? I don't remember.

Q Was Mr. Lombardi there?

A No, sir.

Q Mr. Hancock?

A I think Mr. Hancock, Mr. John Hancock, was there.

Q Mr. John W. Hancock?

A Yes.

Q You were there, of course?

A Oh, Mr. Ernest E. Pyles was there.

Q With what company is he associated?

A Hancock, and I believe Mr. Green of Signal was there.

Q Was anyone representing the Shell Oil Company there?

A No, sir.

Q What?

A No, sir.

Q Was anyone representing the General Petroleum there?

A No, sir.

Q Was anyone representing Richfield there?

A No, sir.

Q Was anyone representing Union there?

A No, sir.

Q What about some of these smaller companies like Apex?

Anybody representing it?

A I don't believe so.

Q The Termo Oil Company, anybody representing it?

A No, sir, I don't think there was anybody from the Termo, but it seems to me there was an attorney for the Jergins people there.

Q What was his name?

A I don't recall.

Q Was Jonah Jones there?

A I don't recall.

Q Who was the attorney for the Hancock that was there?

A I think you were there, Mr. Johnson, weren't you?

MR. JOHNSON: No.

MR. MORROW: Off the record, he has mentioned Mr. Pyles.

MR. PRESTON: Is he an attorney?

MR. MORROW: I don't know.

A No, Mr. Pyles was then in charge of our Production Department.

Q BY MR. PRESTON: Well, now, are you speaking about the final meeting when these two documents were signed?

A You refer to the letter of the 24th?

A Yes.

Q How many meetings of a similar character occurred prior to the date of the signature of this letter, this offer?

A Probably fifteen.

Q Fifteen meetings?

A Yes, sir; maybe more.

Q Fifteen and perhaps more?

A Yes, sir.

Q Well, when did the meetings begin to occur?

A About the first - right after New Year's Day, I think the - no, there were meetings occurred in December.

Q There were meetings in December?

A Yes.

Q What were those meetings for?

A Discussing the possibility of securing a bid from a group of companies.

Q You date that about what date now, about December?

A I would date it about mid-December.

Q About mid-December?

A Yes.

Q Were some or all of these parties present at all the meetings?

A No, sir.

Q Where did the meetings occur if at other places than the office of the Signal Oil Company?

A I think the first meeting was in Mr. Mosher's office.

Q That is Signal also, is it not?

A It is.

Q The same building?

A Yes, sir.

Q Well, where was the second meeting?

A In the office of Mr. Charles Jones, the Richfield president.

Q The Richfield what, president?

A President of the Richfield.

Q Which is in what place?

A That is in the Richfield Building.

Q And the next place?

A There were many meetings in the Richfield Building, either in Mr. Jones' office or in their directors' room. Later there were so many that we had the directors' room.

Q Well, what was the origin of these meetings? Who got together the first meeting, for example?

A Mr. Mosher and myself held the first meeting in his office.

Q It is a fact, really, is it not, that you started the proceedings that resulted in these various meetings?

A Well, I hardly recall whether Mr. Mosher called me on the phone or I called him. One or the other of us -

Q Anyway, a talk between you and Mr. Mosher is the inception of these meetings, is that right?

A Yes.

Q And that occurred as early as mid-December, 1938?

A Yes.

Q And what was the object in conducting this conversation with Mr. Mosher on that occasion?

A We were exploring the possibility or likelihood of getting a group of oil companies big enough and strong enough and welded

Q The same building?

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A Yes.

Q And that occurred as early as mid-December, 1938?

A Yes.

Q And what was the object in conducting this conversation with Mr. Mosher on that occasion?

A We were exploring the possibility or likelihood of getting a group of oil companies big enough and strong enough and welded

together to make a bid on the property.

Q Well, now, you had in mind at that time, did you not, making a bid on the advertisement as of December 16, 1938? That is, the invitation for bids?

MR. MORROW: You mean the 16th or the 30th?

MR. PRESTON: There are two of them, the 16th and the 30th.

A Well, since I don't recall the dates of the advertisements and don't recall having seen the bids, I don't quite know how to answer your question.

Q BY MR. PRESTON: All right. Did you know that bids were being sought at the time you and Mr. Mosher had the first talk?

A I knew that they were either being sought or about to be sought.

Q I see. You had had these phone conversations with these members of the board and City Council you have referred to, had you not?

A Yes.

Q Then you and Mr. Mosher started the proceedings that finally culminated in this letter of January 24, 1939, isn't that right?

A No, sir.

Q You knew that bids were expected on or prior to January 11, 1939, did you not?

A Yes, sir.

Q Did you prepare, and by you I mean at these conferences, -- did you prepare a bid for the invitation ending January 11, 1939?

A Yes, sir.

Q Is that bid in writing, reduced to writing?

A Yes, sir.

Q Have you a copy of it with you today?

A Yes, sir.

Q Will you produce it, please?

A I guess I haven't got a copy. I thought I had one.

MR. JOHNSON: May I talk to him a minute?

MR. PRESTON: Go ahead.

A you haven't a copy of that?

MR. MATTSON: No.

Q BY MR. PRESTON: All right, will you produce before this deposition ends a copy of that bid?

A Yes

Q When was it compiled, if you have any data there that will show the date of it?

A It was compiled on the day before the bids were to be opened. If I recall correctly, the bids were to be opened on the morning of January 11.

Q That is right.

A Then the bid was compiled on January 10.

Q Where were you at the time that bid was compiled?

A In the directors' room of the Richfield Oil Company.

Q In Los Angeles City?

A That is right.

Q And who was present on that occasion?

A May I refresh my recollection?

MR. PRESTON: Sure.

A Mr. Lombardi - -

MR. JOHNSON: That is a duplicate copy, Mr. Reid. Here is the original.

MR. PRESTON: That is a duplicate copy of the minutes of the Long Beach Oil Development Company?

MR. JOHNSON: Yes. Those are the originals he has now.

A Mr. Rubel, Cy Rubel of the Union Oil Company.

Q BY MR. PRESTON: Before that, you had Mr. Lombardi?

A Yes, Mr. Lombardi of the Standard Oil Company, Mr. Cy Rubel of the Union Oil Company, Mr. Ragland of the Richfield Oil Company, Mr. Frank Morgan of the Richfield Oil Company, Mr. Thomas of the Texaco Company - -

Q Mr. Thomas of the Shell, isn't it, F. F. Thomas?

A I don't know.

Q F. F. Thomas is with the Shell, I know.

MR. MORROW. Is that F. F. Thomas?

A Yes.

MR. MORROW: Yes, he is with the Shell.

MR. PRESTON: I think you had better correct that, because he is with the Shell, I know. All right, who else?

A Mr. Mosher of the Signal Oil Company; Mr. Harry March of the Signal Oil Company; myself; and I think during a portion of the day Mr. Charlie Jones, president of the Richfield Oil Company, was with us.

Q Are you refreshing your memory - - from what data there, Mr. Reid?

A From the people who signed the minutes and from the directors who were present, and so forth.

Q Signed the minutes of what, what meeting?

A Of the meeting held that day.

Q Held under the auspices of the Long Beach Oil Development Company, a corporation?

A Yes.

Q We will get around to that later on. Can you verify now the date of that bid by looking at these minutes that you have there?

A Yes.

Q What date does it show?

A January 10, 1939.

Q And can you tell us about the hour of the day when the bid was executed?

MR. MORROW: By "executed" you mean signed?

MR. PRESTON: Yes, signed.

A Very late in the afternoon.

Q BY MR. PRESTON: Very late in the afternoon?

A Yes, possibly almost dinner time.

Q And after the document was finished, what was done with it?

A As I recall, it was left to be filed with the Harbor Board by the Richfield Oil Company.

Q Who signed this bid?

A I think that I signed it as president.

Q You mean president of the Long Beach Oil Development Company, a corporation?

A Yes, and Mr. H. J. March signed it as secretary.

Q Did it bear any other signatures?

A No, sir.

Q What became of that bid after its execution in the manner

you have stated and after its delivery to the Richfield, did you say?

A As I recall, the Richfield was to - - one of the officials of the Richfield had volunteered to secure the necessary cashier's check and attach it to the bid and file the bid before the hour of opening.

Q And what was to be the amount of the cashier's check?

A \$10,000.00

Q \$10,000.00?

A Yes.

Q And why wasn't this done?

A One of the principals withdrew from our group of corporations late that evening.

Q Who was that?

A The Richfield Oil Company.

Q The Richfield Oil Company, although they had the bid and had promised to deliver it and to procure the check, they suddenly quit on it, is that right?

A Yes, sir.

Q Which one of these members of the Richfield Oil Company was spokesman for the company in that matter?

A Do you mean which Richfield man told us they were going to quit?

Q Yes.

A Mr. Jones told us the following - - told me on the morning of the 11th that they were going to - - they were out.

Q They were out. Did he tell you why?

A Yes.

Q What reason did he assign?

A The big boss said no.

Q The big boss said no. To whom did he refer as "the big boss"?

A Mr. Harry Sinclair.

Q Did you invite the General Petroleum to come in with you?

A No, sir.

Q Did you invite anyone to come in who didn't come in?

A Yes.

Q Who was that?

A We invited the Associated and we invited the Shell, and we invited several smaller companies.

MR. MATTSON: What period do you refer to, judge?

MR. PRESTON: To come in and sign this bid.

MR. MATTSON: Before the 10th?

MR. PRESTON: At the time this bid was made.

A I assume you are talking about before the 10th of January?

MR. PRESTON: Yes. I want to know the names of all the companies you invited to join you who did not so join.

A The Associated was invited and didn't join. As I recall, the Shell had not joined, had not agreed to come in although they may have. I don't remember. The Keck or Superior Oil Company, the Keck interests had been invited and had declined.

Q BY MR. PRESTON: Did the Jergins Trust come in?

A Jergins had been invited and had declined.

Q Well, did Mr. Jones of the Richfield give you any further reasons than what you have stated, that Mr. Sinclair said no.

A No, sir.

Q He didn't know why Mr. Sinclair had said no?

A I don't think he did.

Q Why did that occurrence prevent the filing of the bid?

A During the day spent in the Richfield directors' room - -
I refer to the 10th of January, 1939, - -

Q Yes.

A - - the major portion of the day, or a good portion of the day, had been devoted to a division of interests in the corporation, and by "division of interests" I mean the division of who would buy the oil and what percentage of it they would buy, and it had been a rather hectic day. When one of the major principals withdrew, it upset the whole arrangement and it was impossible to proceed.

Q I see; and that would have been true if any of the other majors involved had acted likewise?

A Yes, sir.

Q And then it became known on the morning of the 11th that there would be no bid on behalf of the Long Beach Oil Development Company, - - that is, this group?

A That is right.

Q What, generally speaking, were the terms of your bid for the whole group of parcels, W, X, Y and Z, in that bid?

A Forty percent flat royalty.

Q Forty percent. That is forty percent to the - -

A To the City of Long Beach.

Q Forty percent to the City of Long Beach?

A Yes

Q And the remainder then would have belonged to the contractor?

A Yes, sir.

Q Was that about the only bid, or did you make several bids?

A That is the only bid I recall at that time.

Q That is what I mean, at that time.

A Yes, sir.

Q You didn't bid on the tracts singly?

A No, sir. I think the form of the bid made us bid on each tract, but it was one bid.

Q It was really one bid? It was a combination bid, so-called?

A Yes.

Q Of a forty percent royalty to the city?

A Yes, sir.

Q Was there any meeting in a yacht over in Catalina harbor about this time that you know of?

A Not that I know of.

Q Did you ever hear of any such transaction?

A No, sir.

Q Then as I understand you, Mr. Reid, up until the withdrawal of the Richfield Oil Company, which occurred the morning of the - - of which you had notice in the morning of the 11th, - - up to that time you in good faith intended to put in this bid?

A Yes, sir.

Q Is that right?

A Yes, sir.

Q Well, now, we will leave that subject with your consent and go back to the organization of the Long Beach Oil Development Company. You are the president of that company now?

A Yes, sir.

Q And have been continuously since its formation?

A Yes, sir.

Q And it was formed on or about the 10th day of January, 1939?

A 1939.

Q It was formed for the purpose of putting this bid in, was it not?

A Yes, sir.

Q And who organized the company for you, - - I mean the attorneys? Who were the attorneys that organized the company for you?

A The most active men were the Richfield attorneys, because the work was done in their office.

Q What are their names?

A Under the direction of Mr. Ragland, who I think is their senior man.

Q Well, at about what stage of these conferences that you have referred to, these fifteen or more conferences, did the idea of organizing this corporation arise?

A I don't recall the date. I assume it was after the first of January, 1939, and just as soon as we had secured a group that were willing to go.

Q I see. Would you think that consent of the group sufficient in size to go was had as early as the 1st of January, 1939?

A No, sir, I don't think it was had that early. I think it was subsequent to the 1st of January.

Q Subsequent to the 1st of January?

A Yes, sir.

Q Had you had any pre-incorporation minutes or writings of any kind?

A No, sir.

Q Had there been any allotment of the stock, or prospective allotment of the stock, at that time?

A The prospective allotment, or the allocation of the percentage interests in the corporation, was all done on the 10th of January.

Q On the 10th of January?

A Yes.

Q Have you any access to any document that will give us the allocations, percentages, with you today?

A I have no document and I don't positively recall.

Q Do you know what - -

A Approximately I know.

Q Do you know what the Hancock's interest was to be?

A It changed so often that day that I don't recall where we finally wound up.

Q Well, give us something of the picture of what the set-up in the way of allocations of stock was.

A I think sometime during that day we agreed that the larger of the companies involved should have approximately an eighth interest each.

Q And that would mean how many and what companies?

A That would mean Hancock, Signal, Richfield, Shell, Standard, Union. I don't recall whether The Texas Company was out or in.

Q Well, Texas, if in, would be called a major company, would it not?

A Yes.

Q That is how many eighths now you have got?

A If the Texas Company was in, it would be seven.

Q What was to become of the other one-eighth?

A I think before the day was over we got more than an eighth.

Q I see; about nine-eighths, were there?

A In the morning of that day, the Superior Oil Company and the Jergins Oil Company were still in. By noon of that day, they were out.

Q What day are you fixing as this day?

A The 10th of January.

Q The 10th of January?

A Yes. Now, I don't know whether one or more of the major companies were out before the day ended or not.

Q Anyway, you allotted the stock prospectively along about the lines you suggested?

A Somewhere along there.

Q What was the obligation of each, assumed by each, for his one-eighth interest?

A The obligation of each participant was to put up his share of the required money, which we estimated at about \$3,000,000.00.

Q That was for drilling funds you are speaking about?

A Yes, and to take his share of the oil.

Q Well, did the one-eighth, for example, carry with it the obligation to buy one-eighth of the oil?

A Yes, sir.

Q You say there were no writings in this connection?

A Not prior to January 10th.

Q Not prior to January 10th?

A No, sir.

Q When were these interests definitely allotted to each man or each company?

A January 10th.

Q January 10th, but when were the writings, if any, that memorialized the agreement?

A I don't recall that we ever reduced these interests to writings. There were a lot of figures made on pads with pencils.

Q Well, you must have had an expense fund, did you not, prior to the time that this company was organized?

A No.

Q Well, were there expenses in organization?

A There were expenses of the incorporation of this company.

Q Yes. Were they advanced by anybody, or were they - -

A They were advanced by the Richfield.

Q Was there any other fund raised?

A No, sir.

Q When was the first stock issued by the Long Beach Oil Development Company?

A About 1941.

Q No stock was issued prior to that time?

A No, sir.

Q Well, - -

A Do you have the date of that?

MR. JOHNSON: I was just going to look that up.

A Long after the incorporation of the company.

Q BY MR. PRESTON: Well, when were the first - - I had

wait until you get that.

MR. JOHNSON: You want me to look up that date in the minutes here when the stock was issued?

MR. PRESTON: Yes, I wish you would.

A Now, what is the question?

(Question read)

A I can answer your first question directly now.

MR. PRESTON: All right, please answer the first question referred to.

A The first stock was issued on the 12th of June, 1941.

Q Well, prior to that time, you had changed your corporate set-up, had you not, by amendment to the charter?

A I don't think so.

Q Well, what did your articles call for as to the shares when first issued?

A We had - - our original articles, I think, provided for 25,000 shares of stock.

Q No par value?

A Yes, sir.

Q But before any stock was issued, that was changed, was it not?

A I don't recall that it was changed. I know that we didn't issue that many shares of stock.

MR. PRESTON: My notes show, gentlemen, for the record, that amended articles were filed May 9, 1941, wherein it was provided for the issuance of \$500,000.00 of common stock, divided into a thousand shares, each having a par value of \$500.00.

Q BY MR. PRESTON: You recall now, do you, that that was the

set-up at the time the stock was issued? Was that the corporate set-up prior to the time you issued any stock?

A Yes, sir.

Q Well, then, why did you not issue stock earlier?

A I don't recall.

Q Well, the company began to operate these lands in the month of - - about the month of March, 1939, did it not?

A Yes, sir.

Q Some two years or more before the stock was issued, is that right?

A Yes, sir.

Q Well, where did you get the funds to operate on?

A The interests that - - the stockholders advanced the LBOD funds.

Q You mean the prospective stockholders?

A I stand corrected.

Q All right. Have you the dates when the first contribution was made to the corporation by these prospective stockholders?

A I think I have.

Q If you can find it quickly there, I wish you would do so.

A On March 13, 1939.

Q Is that the time that a million dollars was placed in the four banks in Long Beach?

A Yes, sir.

Q Was that contributed in a pro rata fashion by the prospective stockholders?

A Eventually it was, within a week after the 13th of March, but not on that date.

Q On that day who put the money up?

A The Standard Oil put up \$500,000.00 and The Hancock Oil Company put up \$500,000.00.

Q And eventually, you say, the others - -

A Within a week we were reimbursed for our - -

Q Well, what was the condition of the treasury prior to March 13, 1939?

A There was no treasury.

Q Dry, was it?

A Yes.

Q Well, certain expenses were incurred, were they not, and paid, during that period?

A Very little except the cost of incorporating the company.

Q There had been some other expenses, had there not?

A A few dollars probably.

Q Well, was this - - is this stock pooled or is it held by each severally?

A Each owner holds its own stock.

Q They hold it severally now?

A Yes.

Q What was the ownership, say, on March 13th, of that date, what was The Hancock's interest, one-eighth?

MATTSON: What year, please?

MR. PRESTON: 1939; excuse me.

A Hancock was to have twenty-eight and one-half percent of the stock when, as and if issued.

Q BY MR. PRESTON: Twenty-eight and one-half percent?

A Yes.

Q Can you give each of the other owners at that time?

A Yes.

Q Please give them for the record.

A The Standard Oil Company was to have twenty-eight and one-half percent; The Signal Oil Company was to have twenty-eight and one-half percent; the Termo Oil Company, two percent; the Apex Petroleum, two percent; A. N. Macrate, two percent; the Jergins Oil Company, twelve and one-half percent. I think that makes the hundred. I'm not positive about the Jergins interest.

MR. PRESTON: How much does that add up to, Mr. Reporter?
Can you add?

THE REPORTER: That makes one hundred and four percent, the way I figure it.

A The Jergins Oil Company was to have eight and one-half percent, one-twelfth.

Q BY MR. PRESTON: But the Jergins Oil Company didn't put up their part, did they?

A They did within a few days after the 13th of March, 1939.

(ASSEMBLYMAN ALLEN: Now, parenthetically, and not as part of the deposition, I would like to recall that exhibits produced by Mr. Annand last night, these investors after the Hancock, Standard and Signal, came in several months after the original date. Back to the deposition on line 14, page 39).

A They did within a few days after the 13th of March, 1939.

Q Did Macrate put up his?

A Yes.

Q And Apex?

A Yes.

Q Termo?

A Yes.

Q They all put their part up?

A Yes, sir.

Q Well, I thought that the Jergins Oil Company had withdrawn on the 10th day of January from this bid?

A They did.

Q But they came back in in the subsequent bidding, is that what you mean?

A Yes, sir.

Q Now, we will come back to your letter of January 24. You have a copy of that letter before you, Mr. Reid?

A Yes, sir.

Q It says: "In order that you may understand our present plans," says the letter, "Please be advised that it is contemplated that the following will be subscribers to shares of our capital stock: A. T. Jergins Trust, Termo Oil Company, A. N. Macrate, Hancock Oil Company, Signal Oil & Gas Company, Standard Oil Company of California".

You recall that being in the letter?

A Yes.

MR. MATTSON: In order that the record may be straight, that is a portion of the letter, about the middle portion.

MR. PRESON: Yes, that is the middle portion of the letter.

Q BY MR. PRESTON: Now, that does not contain all of the names, does it, of the subscribers as you have just now given them?

A No, sir.

Q Do you know why the discrepancy?

A Yes, sir.

Q Why?

A On the afternoon of January 24th we were unable to reach one of the interested parties, the Apex Petroleum, to secure their consent to this proposal.

Q Which one was that?

A The Apex.

Q So you left them out?

A Yes.

Q But they came in later?

A Yes.

Q And the Apex is the one that is left out?

A Yes, sir.

Q Continuing this letter, you state on the same page, immediately following what I have just read: "That the directors of the corporation are John W. Hancock, M. E. Lombardi. H. J. March, S. B. Mosher, E. E. Pyles, and Will J. Reid".

Is that correct? Is that the correct number and names of the directors at that date?

A At that date, it was.

Q Were these the first directors after your company got organized?

A No, sir.

Q Who were the first Board of Directors?

A M. E. Lombardi, S. B. Mosher, Frank A. Morgan, A. C. Rubel, R. W. Ragland, F. F. Thomas, Allen A. Jergins, W. M. Keck, and Will J. Reid.

Q That is how many directors?

A Nine.

Q Did you later reduce the number to less than nine?

A Yes, sir.

Q What date was that?

A I don't recall. I expect the minutes will show. The by-laws would have to be amended, wouldn't they?

MR. PRESTON: Well, I'm not particularly interested in it if you can find it later.

Q BY MR. PRESTON: Why were some of these directors dropped and others placed in their stead, if you know, speaking generally?

A The companies that they represented withdrew from the venture, or withdrew from the proposed venture.

Q The first board of directors then at the time it was constructed or made up, there had been no withdrawals by anybody that had agreed to go in?

MR. MORROW: I don't know as I understand that question. Read it, Mr. Reporter.

(Question read)

MR. PRESTON: I am referring to the Richfield - - let's see now.

A There were two withdrawals from the first board of directors on the occasion of their first meeting, January 10, 1939.

Q BY MR. PRESTON: Which two was that?

A Allen A. Jergins and W. M. Keck.

Q Well, what others withdrew on that date, if any?

A I don't recall that there were any others that withdrew on that date.

Q Did any others withdraw later?

A Yes.

Q Give us their names and the date, if you can.

A On the 23rd of January, 1939, Frank Morgan resigned.

Q He represented the - -

A The Richfield Oil Company. On the 23rd of January, 1939, Mr. Ragland resigned.

Q Also of the Richfield?

A Yes, sir. Under date of January 27, Mr. Thomas, F. F. Thomas, Jr., addressed a letter to the company in which he resigned or requested that his resignation be accepted to take effect at once. This confirmed his earlier withdrawal.

Q Does that cover all the withdrawals that you have there?

A No. On the 27th of January, 1939, we had a letter from Mr. A. C. Rubel confirming his earlier resignation.

Q Representing what?

A The Union Oil Company.

Q On the 24th of January, 1939, when this letter signed by you as president of the Long Beach Oil Development Company, and the offer accompanying it, were made, all these parties whose withdrawal you have recited there were still in and were cognizant of the letter you wrote or signed, were they not?

A No, sir.

Q Could you tell then those names, that is, which of those men - -

A You asked two questions.

(ASSEMBLYMAN ALLEN: Well, that is to line 5, page 43, and starting in again down at line 23, page 44):

Q Well now how many of these men who were - - these companies

that were originally interested, were invited to join in the letter, in the bid and offer contained in the letter of January 24, 1939?

A Will you read that question?

(Question read)

A Eight.

Q Name them.

A A. T. Jergins Trust; Termo Company.

MR. MORROW: Just a moment. I'm getting confused, or the witness is or somebody. The question is in addition to the six named in that letter.

MR. PRESTON: Yes. The witness has missed the question. You have named, Mr. Reid, the names of those that were in when the letter was written?

A Yes.

Q BY MR. PRESTON: Now, I want to know how many were invited to join with you who declined to do so.

A It is understood that the Apex were in but we had not their consent that afternoon.

Q All right, you can count them in.

(ASSEMBLYMAN ALLEN: I will skip over to page 67 - line 1, page 67):

Los Angeles, California;

Tuesday, November 17, 1942

2:00 o'clock, P.M.

Q BY JUDGE PRESTON: Mr. Reid, when you made the bid of forty percent referred to by you this morning, did you have certain engineering data and material before you from which to make up the estimate?

A Before the group, the answer is yes.

Q Did you examine that data yourself?

A No, sir.

Q Who made the analysis of that data for you?

A The geologists for the various companies interested.

Q Did they agree upon the ingredients of the proposition that caused the bid to be made?

A As I recall, what we asked them to tell us was how much of the land was oil bearing and how much oil they thought it would bear.

Q And when you had those two items, why, then the remainder of the necessary data was furnished by whom, such as drilling costs, I assume, and items of that kind?

A By the Production Departments of the various companies.

Q Was there a production cost sheet worked out by the group?

A I don't recall. I assume that there was. I think that each company probably worked out their own.

Q Well, you must have done something to strike a balance or an average to arrive at the forty percent, did you not?

A The forty percent figure was arrived at in a peculiar manner.

Q I wish I could get your smile into the record there. How was it arrived at?

A Some of the companies wanted to bid more and some of them wanted to bid less, and we finally arrived at forty percent.

Q That is what I just asked you, if it wasn't a kind of an average of the various opinions on the subject?

A I don't think we ever did get the Standard Oil Company to

whole-heartedly agree, but they finally shut up.

Q As they say up in the northern part of the State, they acquiesced in what the rest of you had done?

A Yes.

Q Well, when you came to make up the bid contained in the letter of January 24, did you have the same kind of material before you?

A I don't recall that we had much if any engineering data in front of us on the date that we agreed on the proposal in the letter of January 24.

Q Well, did you assume the geologists' data that you had had to be correct and use it?

A In substance, yes.

Q In substance?

A Yes.

(ASSEMBLYMAN ALLEN: I will skip over to page 71, line 9):

Q BY MR. PRESTON: And still notwithstanding that fact you say that the bid that you made on the 24th of January was a better bid for the city than the one that you had made on January 10th?

A Yes, sir.

Q I can't understand why. Tell us, please.

A Why our proposal of the 24th was better for the city than the bid of the 10th?

Q Better for the city

A That was not made, - - the proposed bid of the 10th?

Q Yes.

A We accepted, or we proposed to accept in our proposal of the 24th a small fee for doing all of the development of

the city property. The risk we took was not so great as if we had become a lease holder and agreed to pay a royalty. The city took the risk of drilling a dry hole, we didn't. The city took the risk of the wells becoming pumpers in a very short time and petering out long before the engineers thought they might. Oil is where you find it. They took all of those risks. We furnished the money to do the drilling. We were reasonably sure the wells would produce enough oil to get that money back, and we got a contractor's fee for doing it, and we agreed to purchase the oil. If there was as much oil there as the city thought there was and our engineers thought there was, the sum total over the term of the lease would amount to a great deal more than the flat bid we had proposed to make and didn't make.

(ASSEMBLYMAN ALLEN: And over to page 93, line 17):

Q BY MR. PRESTON: I will ask you if you did not know on the 27th day of January, 1939, that the Board of Harbor Commissioners in session at about 2:00 o'clock on that day took the following action: "Commissioner Clark moved, seconded by Commissioner Hofman, that the City Attorney be and is hereby authorized and directed to prepare a resolution awarding to W. E. Ramsey and Albert Stephens contracts in accordance with their combination bid on parcels W, X, Y and Z, outer harbor, Long Beach, California;" and that that motion was carried by the following vote: "Ayes, Commissioners Clark, Hofman, and Miller. Noes, Commissioners Hosson and Stevens".

A I don't recall whether I heard about that action on the day that it was taken or the following day. I undoubtedly heard about it soon after.

Q Don't you recall that at about 4:00 o'clock on that day, January 27, 1939, you met with the City Council of Long Beach in executive session in their executive session rooms in connection with this very matter?

A I have never met with the City Council about that time of day. I met with them late one evening, and I met with them one forenoon.

Q Well, take the first day; on the 27th late in the afternoon, after 4:00 o'clock, didn't you meet with them?

A I don't know whether it was the 27th or not.

Q Well, don't you know it was the very day the Board of Harbor Commissioners had taken the action that I have referred to here?

A No.

Q Well, what prompted you to go down there the day you did go late in the evening?

A It may have been January 27th. I don't recall, but one evening I was at the osteopath's, -- in fact, I was so tired every night during that period I went there before I went home every night to get a little working over -- and a message came from the Council chamber that they wanted me to come down, and I proceeded to put my clothes back on and to go down to the Council chamber.

Q Did Mr. Malone go with you?

A No.

Q Do you have such a man in your company?

A There is a Mr. Malone, a director of our company.

Q Didn't he go with you or come in soon after you got there?

A I don't recall he was there at all.

Q Do you know who summoned you from the City Council?

A No, I don't know who the message came from. I know who got the message to me.

Q Who was that?

A Mr. John Hancock of our company.

Q Oh, the message came to the company and Mr. Hancock relayed it to you?

A Yes.

Q And you went over. What time do you think you got there?

A It would be about 7:00 o'clock because I asked one of the Councilmen if they had had their dinner and he said no; so it was after the Long Beach dinner hour.

Q Well, we have got the hour ourselves here if it would be of any interest to you. Well, what was said when you got to the City Council meeting?

A As I recall, I was subjected to something of an inquisition, or maybe I should say a heckling, by the Council, as to the people that composed the group that made up the Long Beach Oil Development Company.

Q Didn't the question come up about the Ramsey-Stephens bid and what action the Harbor Board had taken on it?

A I don't recall that that was discussed at all.

Q And do you remember that at that time Councilman Barnes asked you whether or not you would take this bid that Ramsey and Stephens had made, to which you replied no, and that no company would, no responsible company would?

A I don't recall that at all.

Q Did the question of injury to the price structure of crude oil in that vicinity come up for discussion at this meeting?

A What do you mean by "question of injury"? Injury how?

Q I am talking about whether or not the question was discussed as to what would be the result on the price structure of crude oil if this contract of Ramsey and Stephens was carried out?

A I don't recall that it did.

Q Well, what was said along any kindred subject, if you recall?

A My memory of the meeting, when I got out of it, away from them, was mostly that they were cross-examining me as to whether our group was the Standard Oil Company or whether it was a group made up of Hancock and Signal and some good Long Beach companies, or whether the little fellows would have anything to say about it if they ever did business with us.

Q Well, did the City Councilmen show interest in the little man or in the big man, which was it? I can't tell from what you say.

A Well, the City Council of Long Beach has always been interested in home talent, home companies. Long Beach is an oil town.

(ASSEMBLYMAN ALLEN: And over to page 121 at line 4):

Q Do you remember being at the Mecca Cafe along about the 27th day of January, 1939, when you met with Mr. Frosty Martin and Mr. John Alford and probably somebody else, on this subject?

A Judge Preston, I was in the Mecca Cafe about eight years ago for breakfast at about 3:00 o'clock in the morning when I was going hunting, and I haven't been there since.

Q You haven't been there since?

A No.

Q Did you have a meeting with these men anywhere else?

A I may have seen them. They are fellow townsmen.

Q Well, did you talk over this Ramsey-Stephens bid with them at any time?

A I don't recall that I did.

Q Who is Mr. John Alford?

A Johnny Alford is an oil operator, independent producer.

Q Did you have any conversation with Mr. Ward Johnson about the articles appearing in his paper, the Long Beach Independent?

A I didn't know Mr. Ward Johnson until he started cross-examining me the day I came up before the Council, and he was the meanest man there, and that was the first time, to my knowledge, I had ever seen him.

Q Well, did you have any later meetings with him?

A No. I don't recall having meetings with him.

Q Well, did you take any steps to pacify the Long Beach Independent concerning the articles that they were putting in the paper relating to this subject matter we are discussing here today?

A I don't recall that I did.

Q Do you know whether he or anyone else in connection with that paper were offered any stock of the Long Beach Oil Development Company?

A Yes.

Q What was that?

A I have always understood that one of the owners of that paper is Johnny Alford, and Johnny Alford was one of the Long

Beach independents that was offered a participation in this company.

Q Did he accept?

A He did and then backed out.

Q Well, what was his percentage?

A I think he was to have two percent.

Q Well, was there anybody else connected with the paper who was to have anything else?

A I don't recall it.

Q Was Mr. Hampton to have any part of it?

A I don't recall it.

Q Was Mr. Ward Johnson to have any part of it?

A I don't know who Mr. Hampton is.

Q Was Mr. Ward Johnson to have any part of it?

A No.

Q Was Mr. Frosty Martin to have any part of it?

A They weren't in the oil business.

Q Wasn't it eight percent instead of two?

A No, sir.

Q Are you sure it was two percent?

A Yes.

Q Was he the owner of the paper at the time he was supposed to have this two percent interest?

A I have been told that the ownership of that paper is divided equally amongst four people.

Q What four people?

A Johnson, Martin, Collins and Alford.

Q Well, did the policy of that paper change about that time, to your knowledge?

A I don't recall that it did.

Q Well, they were jumping on you at first and then they quit altogether, referring to the Long Beach Oil Development Company?

A I don't remember when Mr. Johnson quit. He was mighty mean all the time.

Q Well, he did cease firing, though, a little later on, didn't he?

A Well, long after that I helped him to get elected to Congress, but I don't think he ever quit firing before we got the contract.

Q I'm talking about before you got the contract?

A I don't think he ever quit firing, and I don't think the paper ever quit firing.

Q I'm going by what I hear, that is all. Well, when did Mr. Alford relinquish his two percent, his right to claim two percent, or whatever he did?

A I don't recall. In reviewing the set-up of the company on January 10th, the name Alford Oil Company appears, and on January 27th when we made this proposal to the Harbor Board - -

MR. MORROW: What date?

A January 24, 1939, the name Alford Oil Company is not in the group, so somewhere in there he was on and off.

Q BY MR. PRESTON: And did he put up any money?

A He didn't put up any money.

Q He didn't put up any money?

A No.

MR. PRESTON: Well, are there any of those minutes that I haven't

made inquiry about, Mr. Morrow, that will throw any light on any of these questions I have asked?

MR. MORROW: I don't believe so, unless this last minute this witness has referred to does.

MR. PRESTON: I would like to see that last one.

MR. MORROW: Would you like to see that?

MR. PRESTON: Yes, I would.

MR. MORROW: I don't recall anything else, judge.

MR. JOHNSON: Would you accept a copy of those minutes, or would you like to see the original?

MR. PRESTON: I would just like to see the copy. That is good enough for me.

MR. MORROW: What did you refer to, Mr. Reid?

A The minutes of January 10, 1939, show that Alford was supposed to be one of the stockholders of the company.

ASSEMBLYMAN ALLEN: That is all I have this morning, Mr. Chairman. I appreciate your indulgence in listening to all of this.

CHAIRMAN McFALL: Thank you, Mr. Allen.

ALLEN: I will say that there are some other witnesses, including Mr. Reid, that I was not able to get here this morning, but I am sure they will be available at a future meeting of this committee.

CHAIRMAN McFALL: Well, then, that concludes, at least for this morning, your presentation.

We have the setting of our next committee meeting. It is my understanding it will be necessary for us to have, probably, at least one more session and probably after the close of the session at some time that we can determine then. Any comments?

Mr. Works, do you have any comment that you would like to make at this time?

WORKS: No, Mr. Chairman. We will confer with Mr. Grover from time to time. I believe there are some loose ends which we will be glad to work out.

CHAIRMAN McFALL: Mr. Miller?

MILLER: When does Mr. Works contemplate getting his briefs in? Could you give us any target date for that?

WORKS: Mr. Miller, I haven't given that any particular thought. I assume you have in mind the prepared statement in answer to various charges which have been made here.

CHAIRMAN McFALL: Well, not only the charges but the prepared something of the presentations that the City of Long Beach has made.

WORKS: I had assumed that we would quite probably have some rebuttal. Shall we submit that in the report?

CHAIRMAN McFALL: Well, mostly the questions are to determine just how we are going to conceive this. We will need, Mr. Allen, probably two days, anyway, to finish up with some of your witnesses.

ALLEN: I don't think the witnesses I have will take over a day, and possibly not that long.

CHAIRMAN McFALL: All right. Then at that time - we admit it is more economical to meet two days at a time - we would have some presentation, possibly, and some testimony which you desire to present.

WORKS: I assume that we would like to put in some rebuttal. I appreciate the service you gentlemen are rendering; we don't

want to take all your time for these hearings.

CHAIRMAN McFALL: We wish to allow you every opportunity to present evidence. Now, with the understanding that we are going to have further hearings and that there is going to be some review from your side, and Mr. Allen wishes to present some summation, we can adjourn this meeting and we can make those arrangements through Mr. Grover.

WORKS: That would be a very happy solution because we have no trouble in getting along with Mr. Grover.

CHAIRMAN McFALL: We are going to present a progress report to the Budget Session. It will just be a statement of how much time we have spent on it, the number of exhibits, and other mechanical procedures we have gone through, and how much longer we expect to take, and approximately how much it is going to cost the Legislature to do the job.

WORKS: We will, I assume, before the second hearing, prepare a statement in answer to certain charges which have been made here, and we will submit a list of the witnesses who may be examined by the committee later on.

CHAIRMAN McFALL: Fine, and that will give Mr. Grover an idea, and the committee an idea, of approximately how much time we are going to have to spend, and we can report to the Rules Committee concerning approximately how much more money it will be necessary for us to have.

Mr. Miller.

MILLER: I wonder if it is going to be possible for us to wind up our testimony, as such, except that that we feel we want additional testimony on after summation prior to the Budget Session.

CHAIRMAN McFALL: I hadn't contemplated that, Mr. Miller.

MILLER: You hadn't? Well, in view of Mr. Allen's statement that the number of witnesses he had and the time they would take would be very short, I am just making this suggestion that I would like to get the summary as soon as possible, frankly, because I know, in the summary - all of us are not going to be able to digest this record completely because of the voluminous nature of it - and the summary is going to be one of the most beneficial things to us by way of getting at the root of the thing, and I would like to be getting a summary, personally, as soon as we possible can; and if a summary can't be brought in until we have completed our testimony, I, for one, would be willing to take another couple of days out before the session in order to get the testimony in.

CHAIRMAN McFALL: Well, if you will remember, at our previous meetings, because of the meetings of the Ways and Means Committee which will take up all of February from the 13th on, it was felt that it would be almost impossible for us to meet. Now, perhaps we can arrange it. As long as you have notice, we can perhaps arrange a meeting prior to that time. That was the problem.

WORKS: I may say this in response to Mr. Miller's remark. We will be glad to prepare a summary up to date. Of course, we don't know what is coming in the future, but if that will be of any help, we would be glad to do that.

MILLER: That would be very much of a help in my estimation.

WORKS: We could take up various subjects and discuss the pros and cons. We would be glad to do that.

CHAIRMAN McFALL: That's good. Now, does anyone else have any

other comments?

ALLEN: I would be very happy to try to conclude the testimony before the Budget Session if it is possible to get these witnesses. Now, I don't know how long Mr. Reid plans to remain in Mexico, but I assume that through his company we could arrange to have his appearance at some early date.

CHAIRMAN McFALL: Well, then, if it is possible, taking into consideration the other sessions of legislative committees that will be going on next month, we may be able to meet before the March Session on March 4th.

ALLEN: Well, we can work it out, I think, by checking with people like Mr. Reid and Larry Collins, who was on the schedule for today. He lives in Long Beach, and I think he will be available. We can work it out.

CHAIRMAN McFALL: All right. The meeting is adjourned.

Adjournment - 12:20 p.m.